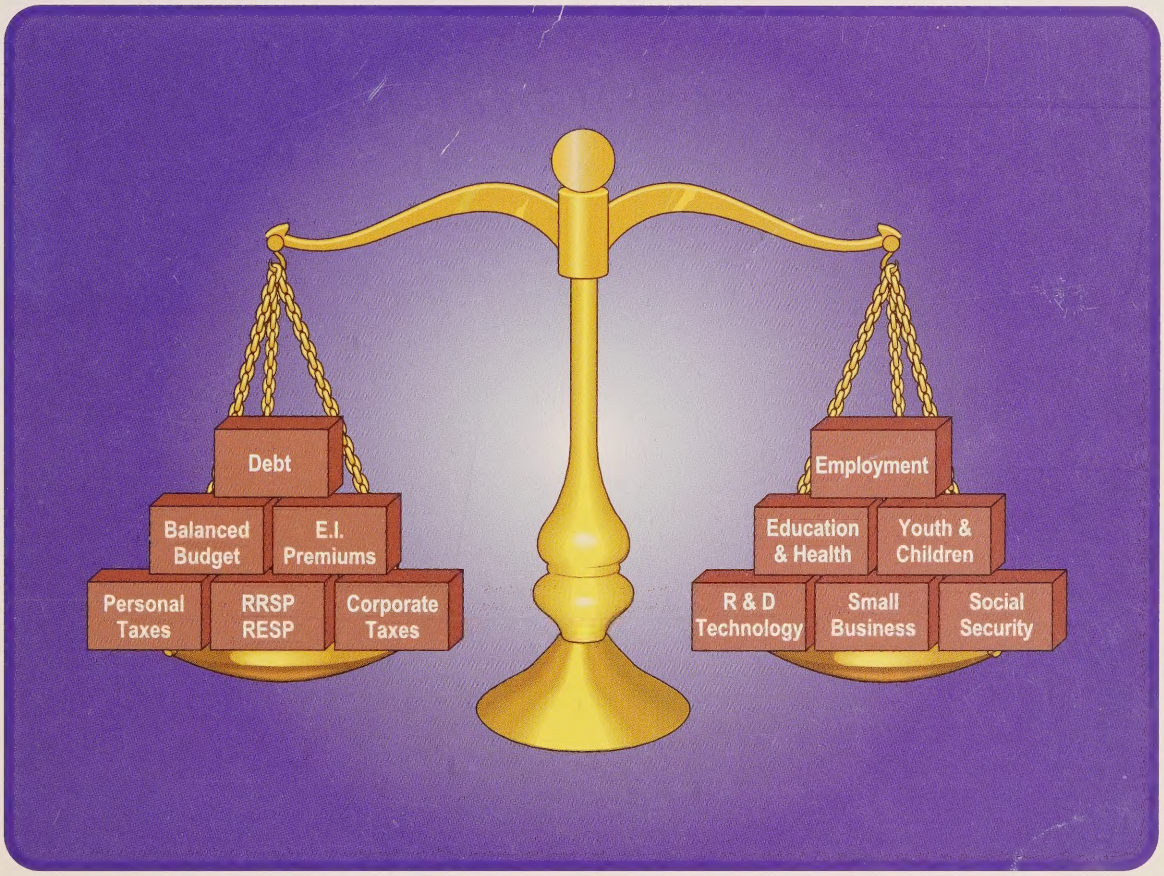
HOUSE OF COMMONS
CANADA

KEEPING THE BALANCE

SECURITY AND OPPORTUNITY FOR CANADIANS

REPORT OF THE STANDING COMMITTEE ON FINANCE



Maurizio Bevilacqua
Chairman

December 1997

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KEEPING THE BALANCE

Security and Opportunity for Canadians

Report of the
Standing Committee on Finance

December 1997

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COMMITTEE MANDATE

Standing Order 83.1

Commencing on the first sitting day in September of each year, the Standing Committee on Finance shall be authorized to consider and make reports upon proposals regarding the budgetary policy of the government. Any report or reports thereon may be made no later than the tenth sitting day before the last normal sitting day in December, as set forth in Standing Order 28(2).

THE STANDING COMMITTEE ON FINANCE

has the honour to present its

SECOND REPORT

In accordance with its mandate under Standing Order 83.1, your Committee has studied proposals on the budgetary policy of the Government and has agreed to report the following :

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CHAIRMAN'S FOREWORD

Keeping the Balance is the result of a continuing conversation with Canadians.

This fall, as part of its annual pre-budget consultation, the House of Commons Standing Committee on Finance traveled from coast to coast to meet with Canadians and engage them in a national dialogue about building a strong economy and a strong society.

We asked fellow citizens about their values and priorities, and how the federal budget should reflect them. People everywhere accepted this challenge with enthusiasm and a determination to make a difference. They approached this consultation with an understanding that economic growth and fiscal success are not ends in themselves, but rather a means to improving the quality of life of all Canadians.

This national conversation was both rewarding and enlightening. Not only did we come away with a sense of what individual Canadians want in the next budget, we also learned a great deal about the new outlook that is shared by many Canadians. It is one that is filled with hope and optimism and faith in their ability to shape the future. The people the Committee met with told us that change is not something we Canadians fear, it is something we embrace. Just as importantly, we were told that Canadians are people who believe in sharing the risks and benefits of our common citizenship.

Through our meetings, it became clear that the challenges of the '80s and '90s have made us a more confident people. This was made possible because of our character, which allowed us to adapt to change and triumph in the face of adversity. As proof of this, let us remember that Canadians did not just adapt to the challenges of globalization, we excelled in the new environment.

The same is true of fiscal restraint. We responded in ways that were never thought possible five years ago. This enhanced confidence in our prospects and our abilities will prove to be a truly valuable asset as we face new challenges in the future. For not only do we as Canadians believe tomorrow will be better than today, we also have the capacity to ensure it is so.

Our conversation with Canadians has allowed us to answer the question of what our approach should be to the challenges of this new era. To put it simply: Canadians want balance. Not just a balanced budget, but balance in government policy: in its goals and in its results.

Canadians want a balance between the security offered by debt reduction and the benefits of investing in people, technology and research and development. Canadians firmly believe that health care, education and pensions are not just line items on a budget

sheet, but rather an expression of our core values. Canadians want to leave future generations a legacy of expanding opportunities rather than one of high taxes and an escalating debt.

This year the Committee held hearings from Vancouver to St. John's. In addition to these and a series of roundtables in Ottawa, we benefited from the many townhall meetings organized by Members of Parliament. The views and recommendations arising from these meetings were communicated to the Committee and broadened the range of input for our consultation. As a result, this year's effort is the most extensive pre-budget consultations to date.

Canadians have demanded accountability from the government as well as responsibility from themselves. *In Keeping the Balance*, we have tried to respond with the substance our fellow citizens demand, as well as a budget plan they deserve.

I would like to express my appreciation to the many people who came forward to take part in this important dialogue. I would like to thank the witnesses who participated in the pre-budget roundtables, as well as the organizations and individuals who submitted written briefs and attended townhall meetings.

I am also grateful to my fellow Committee members for their sincere commitment to public dialogue. The viewpoints expressed, provided us all with the opportunity to debate and analyze issues from different perspectives. Their dedication to the work of the Committee was truly outstanding and a testament to their deep belief in the effectiveness of the parliamentary process.

The Committee members and I wish to thank those who have worked with us to make these pre-budget consultations a success. We extend special thanks to our Committee Clerk, Carol Chafe, and Eric Janse for their hard work. We also thank Lise Tierney, Manon Auger, the interpreters, sound technicians and other members of the House of Commons staff.

Thanks also go out to Marion Wrobel and Richard Domingue from the Research Branch, for their professionalism and willingness to go the extra mile, and to Joseph Mayer for his editorial expertise. Finally, I wish to thank my Legislative Assistant, Heather Simpson, for her dedication and commitment to this important endeavour.

Maurizio Bevilacqua

Maurizio Bevilacqua
Chairman

ENTERING A NEW ERA

For much of this year, analysts and economic commentators have speculated about the size of the federal deficit for the fiscal year ended March 31,1997. As the interim deficit target of 3% of GDP was the focus of the government's first term fiscal policy, the Finance Minister's 1997 Economic and Fiscal Update was highly anticipated, perhaps more than in any other year. While the February 1997 budget indicated that the target would be beaten by at least $5 billion, private sector speculation as to the final result varied widely. The final result would be a measure of the government's success in reducing the deficit. How would the government rate?

With the announcement on October 15, 1997 that the deficit was $8.9 billion, almost $15.5 billion below the original target and almost $20 billion below the deficit of the previous year, it was apparent that the government's fiscal policy had been extremely successful. Indeed, the government was two years ahead of schedule in reducing the deficit.

"I've been both pleased and surprised at the speed with which the deficit has evaporated."

Mr. David Laidler (Department of Economics, University of Western Ontario)

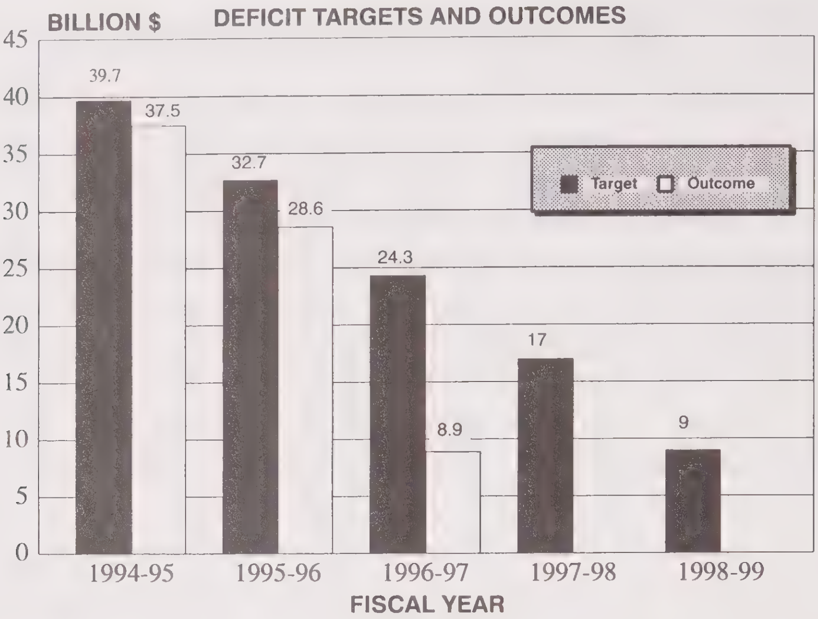
The results were so impressive that 1996-97 came to be seen as a watershed year as well. With a Public Accounts deficit of $8.9 billion, the federal government reached a financial requirement surplus; that is, the government did not have to borrow money from financial markets to finance its ongoing programs. Most other nations use the financial requirements as their measure of government balance. By that standard, the Government of Canada had achieved a balanced budget, the only one in the G-7. Even when looking at a larger group of nations, such as the OECD, Canada is now clearly among a select few.

By our own Public Accounts measures, the federal government is now on the verge of a balanced budget and an end to the growth of net debt, by 1998-99 at the latest. The net debt-to-GDP ratio has declined for the first time in two decades.

"Now that we're on the threshold of a post-deficit world our situation is rather parallel to the situation in 1945 where we were at the end of the Depression."

Ms. Judith Maxwell (President, Canadian Policy Research Networks Inc.)

Canada is now entering a new era; one in which the government's bottom line will be written in black ink rather than red and one in which the Government of Canada will be able to tackle problems more effectively than in the past. Without having to concentrate its efforts on achieving fiscal restraint, the government can now turn its attention to the challenges and opportunities of the new millennium.



Having demonstrated its ability to reduce the deficit by almost $20 billion in one year, and more than $33 billion in three years, it is clear that the Government of Canada has the credibility to say it will never again run deficits and accumulate debt the way it did in the past three decades. Having demonstrated its ability to reduce program spending by over $15 billion in three years and to see the ratio of program spending decline from almost 18% of GDP in 1992-93 to 13.1% in 1996-97, it is clear that controlling spending is an achievable goal.

An additional measure to control spending is the continued application of the principles of Program Review, which is now a permanent feature of the government's spending and budgetary process. Every existing or proposed program is to be subject to six tests: is the program in the public interest? Does the perceived problem require government action? Is it necessary or appropriate for the federal government to address the matter? Could the private or voluntary sector deal with the matter? Is the program affordable? And what is the most efficient means of delivery?

The fiscal objectives of reduced deficits, balanced budgets, and restrained spending are not the government's ultimate goals. The same is true of the price stability objective of the Bank of Canada. They are merely intermediate objectives, which enable and support the achievement of our ultimate ends: fostering job creation, economic growth and opportunity for all, while

maintaining the qualities that characterize Canadian society, particularly a concern about equity and fairness. This is the balance that characterizes the government's approach and reflects the values of Canadian society. The difficult choices made in recent years tried to keep this balance in mind. The choices to be made in the future must do so as well.

"The challenge is to find a proper balance."

Mr. Doug Archer (Mayor, City of Regina)

CHAPTER 1

A. THE FISCAL ENVIRONMENT: PAST EXCESSES AND CURRENT SUCCESSES

1. *Crisis at the Federal Level*

In the latter part of 1993, it became apparent that the Government of Canada was in a fiscal crisis, both as a result of the recent recession and because of the large debt accumulated in the previous decade. In 1992-93, the deficit exceeded $41 billion, and grew to $42 billion the following year. These were the largest deficits in Canadian history,[1] and far exceeded the projections contained in the previous government's 1993 budget ($35.5 billion for 1992-93 and $32.6 billion for 1993-94).

"The problem was clear to everyone: it was the deficit, which was growing every year, and resulted in a debt that compromised our future and restricted our latitude."

Mr. Benoît Latulippe (Fédération des étudiants et étudiantes universitaires du Québec)

While these large deficits were of obvious concern, more worrying were the longer-term trends in the fiscal position of the government. Public debt charges at the start of the 1990s were four times as high as at the start of the 1980s, and were consuming more than one-third of government revenues. Interest payments on the Government of Canada's debt were consuming between 5% and 6% of the total output of the Canadian economy. Rising debt had put the government at the mercy of financial markets, hampering its ability to focus its budgets on the economic and social priorities of the country.

In 10 years the net debt quadrupled to over $400 billion.

Despite the commitments and actions of governments in the 1980s, the debt continued to grow. Since 1982-83, the federal deficit had never fallen below $27 billion. Indeed, in more than half of this period, tax revenues were not even sufficient to finance program spending. The net debt of the Government of Canada was just under $100 billion at the start of the 1980s, amounting to about 30% of GDP. One decade later the net debt had quadrupled, representing closer to 60% of GDP. It would eventually grow to $583 billion, equalling close to three-quarters of annual GDP.

"We do well to remember that today's debt is the tax we choose to impose on our children and grandchildren."

Mr. David Thibaudeau (President, Life Underwriters Association of Canada)

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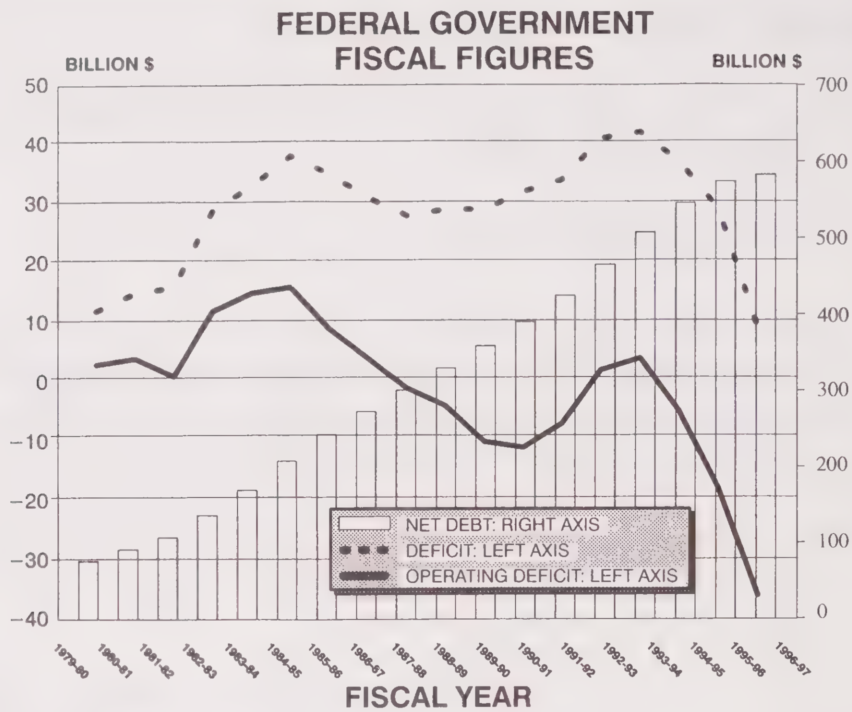
1 As a percentage of GDP, the deficits of the mid-1980s were larger. For example the $38 billion deficit for 1984-85 exceeded 8% of GDP, whereas the 1993-94 deficit was only 6% of GDP.



2. *Provincial Governments' Deficit Challenge*

Compounding the federal challenge was a similar lack of resolve at the provincial level. This was most evident in Ontario, where a $90 million surplus in 1989-90 turned into a $3 billion deficit the following year, and an $11 billion deficit the year after that. Ontario's deficit eventually peaked at $12.4 billion in 1992-93.

Other provinces followed a similar path. Alberta had a $3.4 billion deficit in 1992-93, while Quebec's deficit was $5 billion. Provincial and territorial deficits totalled $25.2 billion in 1992-93, more than five and one-half times what they were only three years earlier. And just as the federal net debt-to-GDP ratio grew on account of the recession, so did the aggregate ratio for the provinces, from 16% just before the recession in 1989-90 to 24.3% in 1992-93.

What mattered was not which level of government was responsible for the accumulation of the debt — they both were — but what cumulative effects all these government deficits had on financial markets, Canadian interest rates, and ultimately the Canadian economy.

3. *An International "Basket Case"*

By 1993 Canadians came to realize that their public finances were in disarray, at both the federal and provincial levels. There was an apparent inability on the part of all Canadian governments to solve their fiscal problems. Even though government deficits were a worldwide phenomenon, the situation in Canada was worse than that seen elsewhere. We ranked poorly in relation to other industrialized nations — of the G-7 nations, only Italy had a worse fiscal record. More importantly, however, our deficit record was consistently and substantially worse than the United States, a nation with which we have a very open border with respect to the movement of goods and capital.

Unlike Italy, however, Canada had traditionally relied heavily on foreign sources of capital. Thus we had a high degree of foreign ownership of our debt. Twenty-five per cent of outstanding federal debt was held by non-residents, and Canada's total net indebtedness to non-residents was equal to about 45% of GDP in 1993. With open capital markets, large foreign debt and poor fiscal performance, we were at the mercy not only of worldwide fluctuations in interest rates but also of changes in how the market assesses the risk associated with Canadian financial securities.

4. *The 1995 Federal Budget: Turning the Tide*

It was with this fiscal background that the Minister of Finance presented his first economic and fiscal update in the fall of 1994. The fiscal strategy and the interim deficit targets announced in the 1994 budget were put at great risk by the escalation of interest rates that started in the spring of 1994 and continued into 1995. To a certain extent this was an international phenomenon, as short-term American rates increased from 3% to 6% during this period. But rates rose even more in Canada, from 4% to 8%, with a resultant

widening of the spread between Canadian and American interest rates. With approximately half the outstanding federal debt being held in short-term securities, this dramatic rise in interest rates had a considerable and negative impact on debt servicing costs. At that time, it was estimated that a sustained 100 basis point increase in interest rates added $1.8 billion to the deficit in the first year and $3.1 billion in year three. Given the 400 basis point increase in Canadian short-term rates, the potential impact on public finances was of very real concern.

To see a deficit grow on account of unforeseen circumstances is not unusual. But in Canada's case, unexpectedly high shortfalls had become the rule rather than the exception; another repetition threatened to take away any credibility that the federal deficit targets might still have had. The Minister responded to the circumstances by stating that the government's deficit target would be met, "come hell or high water," and the subsequent budget reflected this attitude. The 1995 budget truly marked a turning point in Canadian fiscal policy.

"Government must be commended for having surpassed its deficit reduction target through the virtuous circle of restraint measures, lower deficit, lower interest rates acting further to reduce the deficit."

Dr. Barry McLennan (Coalition for Biomedical and Health Research)

The measures adopted at that time were estimated to have had a cumulative reduction of $29 billion in deficits over three years. Over the three-year period, spending cuts equaled $6.90 for every $1 in revenue enhancement, with no increase in personal income tax. Program review, reductions in transfer entitlements to the provinces under the newly-established Canada Health and Social Transfer (CHST), and the reformed Employment Insurance (EI) Program all contributed to the fight against the deficit. It should be noted, however, that the $8 billion Equalization Program remained intact.

The 1996 and 1997 budgets added additional restraint measures, which reinforced the actions taken in 1995, but they were secondary in importance. What the 1995 Canadian experience demonstrated is that one decisive budget could completely reverse the trend of fiscal policy and set a standard of prudence and fiscal responsibility that had not been achieved for many decades.

5. *The Benefits of Fiscal Restraint*

The fiscal situation of Canadian governments is very different today. As outlined above, the federal government has succeeded in putting its finances in order. The deficit, which amounted to almost 6% of GDP in both 1992-93 and the following year, fell to 5% of GDP in 1994-95 and 1.1% in 1996-97. The last time the deficit was this low in relation to the economy was 1970-71. To achieve this result, the government has had to run a very large operating surplus. Last year it was $36 billion, twice what it was the previous year.

Program spending has been substantially reduced. At 13.1% of GDP, federal program spending is now 25% smaller in relation to the size of the economy than it was just four years ago. In dollar terms, it is almost $18 billion less than four years ago. Such a substantial and sustained drop in program spending is unprecedented in the post-war period. Public debt charges have declined from their peak, last year, and are also declining as a percentage of GDP.

"The Canadian government took the right options that were available to them in reducing the deficit. We commend the government for reducing the deficit as much as they have..."

Mr. Francis Reid (General Manager, Construction Association of Prince Edward Island)

Fiscal year 1997-98 is expected to be equally as impressive. The government has achieved a $1.7 billion surplus for the first six months of the fiscal year, compared to a $7 billion deficit in 1996-97. While the Department of Finance reminds us that one-time events and changes in the timing of certain revenues account for part of this improvement, it is clear that the federal government is on track to match the laudable performance of 1996-97.

"Reducing the deficit was a big thing last term, but another big thing that happened was the restoration of the credibility of the finance department and the Minister of Finance in terms of their commitments regarding fiscal policy."

Professor Paul Boothe (Department of Economics, University of Alberta)

Enhanced revenues also played a role in turning around the federal deficit, both in Canada and the United States. Total federal revenues have increased dramatically since 1993-94. By far the largest part of the increase was due to economic growth. The revenue enhancing measures that the Government of Canada adopted in its various budgets were quite small, accounting for only $2.6 billion in extra revenues in 1996-97. The vicious circle of high deficits, high interest rates, slow economic growth and high unemployment has been broken. Replacing it is a virtuous circle of lower deficits leading to lower interest rates, stronger economic growth and greater job creation, which in turn create higher government revenues and even lower deficits.

"Finance Minister Martin really needs to be commended from a fiscal control perspective. He's the first Finance minister in a long time who has listened to wise budget-crafting advice."

Mr. Anthony Toth (President, B.C. Road Builders and Heavy Construction Association)

However, it should be noted that federal revenues have grown only slightly as a proportion of GDP in the past few years, and only last year did they recover the ground lost since the last recession. Furthermore, the large increase in revenues last year was affected by some one-time factors as well as some changes in the timing of tax collections. Thus the rate of growth of revenues experienced last year is not indicative of revenue growth that can be sustained in future years.

A similar reversal of fiscal trends is occurring at the provincial level, although some provinces are far more advanced than others in this respect. The provinces' total deficit was under $12 billion for 1995-96, representing only 1.5% of GDP. This was less than one-half the total deficit for this sector three years earlier.

At the provincial and territorial level, governments are, in aggregate, running operating surpluses (which have been growing for several years), are reducing program spending and, as noted above, reducing their deficits.

"I think the good news is that we're going to have the first surplus in about 20 years but that's also the bad news in the sense that the intervening 19 or 20 years have resulted in deficits which have driven up our gross debt to GDP to an amazing level."

Mr. Leo de Bever (Vice-President, Research and Economics, Ontario Teacher's Pension Plan Board)

Various governments in Canada have chosen very different ways to solve their fiscal problems. Alberta uses very cautious revenue estimates. The dominance of the natural resources sector in that province makes its economy, and hence government revenues, subject to large cyclical swings. As Alberta is already a low-tax jurisdiction, the government has chosen not to reduce taxes but to use excess revenues to pay down debt. While Alberta turned its finances around via reduced expenditures, Saskatchewan used both spending restraint and tax increases to eliminate deficits.

The government of British Columbia has established targets for real per capita spending and debt servicing costs. In Ontario, the focus is tax reduction and drastically reduced program spending. While Ontario's 30% cut in personal income taxes is by far the most significant, other provinces have also reduced a variety of taxes. Every provincial government expects to have eliminated its deficit by the end of the decade.

In 1996-97, the federal government produced a deficit slightly larger than the combined provincial/territorial deficit. This year its deficit should be lower than that of the provinces and territories.

Such a result has not been seen for many years. It illustrates the very dramatic turnaround in federal finances, coupled with the fact that the largest provinces have been relatively slow in reducing their deficits.

The most compelling evidence of the new fiscal environment is the net debt-to-GDP ratio of the federal and provincial governments. This ratio (total government debt-to-GDP) grew by about 50% since 1987-88, with provincial debt growing at a faster rate than federal debt. The combined total slightly exceeded 100% of GDP in 1995-96, when measured on a Public Accounts basis. It was only last year that federal net debt, and total net debt, declined as a proportion of total output.

"We are not out of the woods yet, but are at least on the path out of the woods."

Mr. Dave Neal (Fredericton Chamber of Commerce)

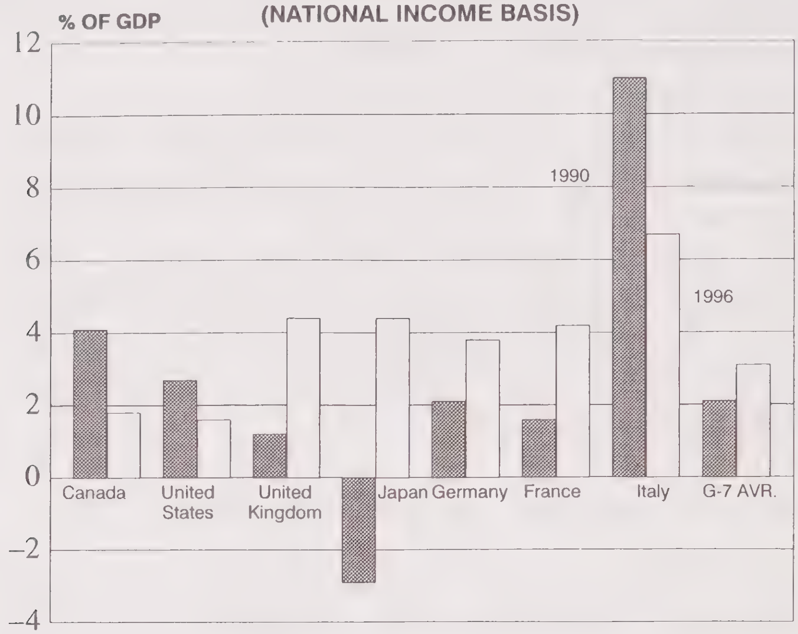
6. *From "Basket Case" to International Success Story*

Another way to assess the Canadian fiscal achievement is to compare it to the performance of our international peers, the G-7 nations and particularly the United States. Using the National Accounts measures, the total government sector in Canada has seen a faster decline in spending and deficits than any other G-7 nation. In 1996, the total government deficit in Canada comprised essentially the same proportion of national output as it did in the United States. For 1997, however, the Canadian figure is below its American counterpart. These ratios in Canada and the United States are less than one-half the average of the other five G-7 nations. This stands in sharp contrast to the situation in 1990, when the Canadian figure was almost double the G-7 average.

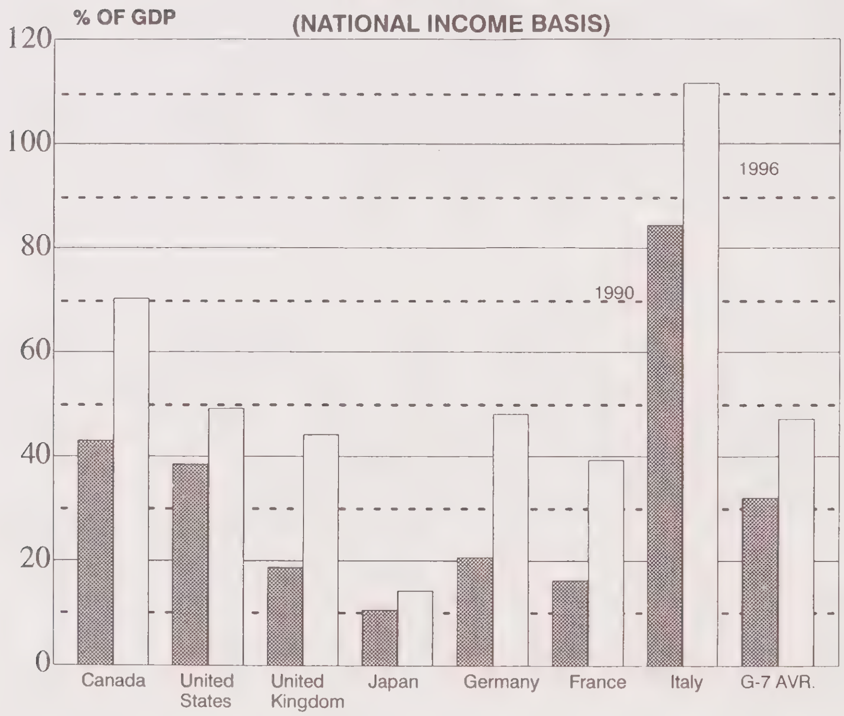
"As a taxpayer I would first like to congratulate the Finance Minister and the government of Canada for showing such discipline and leadership in the fight against the deficit and for having eliminated this burden which was slowing down the country's medium- and long-term growth."

Dr. Rafick-Pierre Sékaly (Laboratory Director, Institut de recherches cliniques de Montréal; Council Member, Council for Health Research in Canada)

G-7 TOTAL GOVERNMENT DEFICITS
1990 AND 1996
(NATIONAL INCOME BASIS)



G-7 TOTAL GOVERNMENT NET DEBT
1990 AND 1996
(NATIONAL INCOME BASIS)



However, Canada's triumph is not yet complete. Whether one examines Public Accounts data for the federal and provincial governments, or whether one looks at internationally-consistent data based on the National Accounts, one conclusion is inescapable: Canadian governments have accumulated too much debt. While these governments have finally come to grips with excessive spending and irresponsible deficits, they have not yet resolved their debt problems. To date, they have succeeded in stopping the growth of the debt relative to the economy. While this is a major accomplishment, the task that remains is to substantially lower the ratio of debt to GDP.

"I am extremely encouraged, as are my colleagues in the Business Council, with the progress and success to date on deficit reduction For this the Minister of Finance deserves great praise, "

Mr. Thomas d'Aquino (President and CEO, Business Council on National Issues)

Our net debt is almost 50% higher than the G-7, and American, average. Only Italy, among G-7 nations, has a worse record. Thus, while fiscal policy is today prudent and responsible, it must still repair the damage caused by imprudent fiscal policies in the past.

"Getting ourselves to a balanced budget is not going to do anything with respect to the debt at all."

Mr. Robert O'Rourke (President, Simscape Development Corporation)

B. BUDGET MAKING INNOVATIONS: KEY TO RESPONSIBLE FISCAL POLICY

Federal budget making is today very different than it was only five years ago and this reform was a key factor in achieving the recent reductions in the federal deficit. Witness after witness told the Committee how important it was for the government to consistently beat its deficit targets and how this fact has greatly enhanced the credibility of the government in the eyes of financial markets. Credibility is important in enabling the government to signal its intentions to the private sector. More importantly, a credible and prudent fiscal policy helps to keep interest rates low, which in turn enables the government to avoid increasing taxes. Low interest rates also help Canadian families because they reduce the cost of home ownership and lower financing costs associated with the purchase of other consumer durables.

"People keep talking about the deficit. ...No one ever talks about the $600-billion debt we have out there, and I think we seriously have to come to grips with paying that down."

Mr. Terry Moorehead (Treasurer M.F. Schurman Co. Ltd.)

The budgeting innovations undertaken by the government include: the establishment of two-year rolling targets instead of the five-year projections used in the past; the use of private sector economic forecasts, adjusted to add a measure of caution, instead of economic forecasts produced by the Department of Finance;

"We do need to start off by reducing our debt load as a way of giving us flexibility and allowing us room as we move forward."

Mr. Josh Mendelsohn (Senior Vice-President and Chief Economist, Canadian Imperial Bank of Commerce)

and the explicit use of a Contingency Reserve to protect against interest rate increases, other unforeseen negative economic developments, and forecasting errors that often affect budgeting.

This Committee's pre-budget consultations represent another innovation in budget making. Having heard from over 2,000 Canadian individuals and organizations, we, as a Committee, believe we are not only opening up a traditionally secretive process, but also ensuring that the recommendations we put forward reflect the multifaceted make-up of this great country.

1. *Two-Year Planning Horizon: Hitting the Target*

"The budget has to have a target."

Ms. Maureen Farrow (Loewen, Ondaatje, McCutcheon Ltd.)

The five-year forecasts were abandoned because of the inability of the government to accurately project that far into the future. The consistent inacurracy of the eventual results deprived the entire process of longer-term projections of any credibility and usefulness. Two-year rolling targets, on the other hand, are sufficiently immediate that only extraordinary events would excuse any failure to meet them. This practice also prevents the government from delaying required action until later in the planning period. As the Minister has stated on numerous occasions, these targets help to provide a standard to which the public can hold the government accountable.

2. *Prudent Assumptions: Erring on the Side of Caution*

"The budget should always be put together based on very conservative economic assumptions."

Ms. Maureen Farrow (Loewen, Ondaatje, McCutcheon Ltd.)

The prudent economic assumptions used in the budget are established in the following manner. Prior to the preparation of the budget and the publication of the Economic and Fiscal Update, private sector forecasters are surveyed with respect to their economic forecasts. In recent years, this sample has comprised 15 to 21 respondents. In 1997, the prudent assumptions used by the government added 80 basis points to the private sector average forecast for short-term interest rates and 50 basis points to the private sector average for long-term interest rates. This Committee recommended in its first consultation report that the prudence factor be between 50 and 100 basis points. Prior to that, the government used a 50 basis point prudence factor for short-term rates.

This practice has two significant positive effects. The government's calculation of its debt servicing costs is higher and, along with it, estimates of the size of the deficit. For example, a 100 basis point increase in interest rates is estimated to add $1 billion to the deficit in the first year. The assumption of higher interest rates also reduces the government's estimates of economic growth, leading to lower revenue and higher spending estimates. The 1997 budget contained prudent assumptions about nominal GDP growth that were 20 basis points lower than the private sector average for 1997 (4.7% vs. 4.9%) and 60 basis points lower for 1998 (4.7% vs. 4.1%). Sensitivity analysis contained in that budget indicates that a one-percentage point decrease in the nominal growth rate increases the deficit by $1.3 billion. For the second year of the government's planning horizon, these prudent assumptions increase the government's estimate of the deficit by about $2.5 billion.

3. Contingency Reserve: Guarding Against the Unexpected

The third component of prudent budgeting is the inclusion of a Contingency Reserve. Initially, the government used a $2.5 billion Contingency Reserve for year one in its two-year planning horizon and a $3 billion reserve for year two. The higher reserve was justified because of the greater uncertainties faced as one plans further into the future. This approach was changed slightly in the 1997 budget, with a $3 billion Contingency Reserve used for both years of the planning period.

A $3 billion Contingency Reserve protects against the first year effects of a 300 basis point increase in interest rates or a 2.3 percentage point decrease in nominal GDP growth. Prudent economic assumptions and the Contingency Reserve combine to provide a $4 billion deficit cushion in year one of the budget horizon and a $5.5 billion in year two.

The government's current policy does not allow the Contingency Reserve to be used to finance program spending. If it is not needed, it is used to reduce the deficit. The Minister of Finance told the Committee that the same principle would apply to

a Contingency Reserve in an age of budgetary surpluses. If it is not needed, it will be used to reduce the net debt of the Government of Canada.

The Contingency Reserve serves a number of purposes, not the least of which is as a cushion to ensure a balanced budget. Not since 1969 has a government delivered back-to-back balanced budgets.

C. ECONOMIC GROWTH: THE ROLE OF STRONG FUNDAMENTALS

Any government has only an indirect impact on the economy. While it has a variety of tools at its disposal, the federal government cannot easily manipulate economic variables so as to direct where the economy will go. But it can work to "get the fundamentals right" and thus let the private sector accomplish that which is within its competence.

1. *The 1990-91 Recession and Unemployment*

"The last recession was relatively mild in the United States. In Canada, it was extremely severe. The United States recovery was much faster. The Canadian recovery has been much slower. Has this had anything to do with the Bank of Canada?"

Mr. David Laidler (Department of Economics, University of Western Ontario)

The fiscal problems of Canadian governments cannot be properly understood without taking into account the economic conditions that marked the start of the decade. The Canadian economy declined for four consecutive quarters in 1990 and 1991. The recovery that followed was anemic and it was not until late 1993 that Canada started to see acceptable growth rates. But this expansion lasted only two years, with growth again faltering and remaining weak until the middle of 1996.

The recession was clearly more severe in Canada than in the United States. When measured against potential output, the American economy declined by only about one-half as much as Canada's, and recovered much more quickly. As of 1995, the US economy was once again producing beyond estimated potential. In Canada we are still about 2% below the IMF's estimate of our economy's potential. The economic performance of other industrialized countries, however, resembled the Canadian experience more than the American one. The UK recession/recovery cycle closely followed the Canadian pattern.

The French, German, Italian and Japanese economies seem to be stuck in the trough of the business cycle, being a bit further from potential than Canada and showing no signs of marked improvement. They are not expected to grow as rapidly as the Canadian economy in the short term.

The most telling sign of our slow and hesitant recovery is reflected in labour markets. While it generally takes several years after the end of a recession for the unemployment rate to recover lost ground, the current recovery appears to be slower than usual; the unemployment rate has still not declined below 9%. Another way of looking at the labour market is to consider the employment rate, which measures total employment as a proportion of the working age population. At the peak of the last economic cycle, about 62% of the working age population was employed. This ratio fell to below 59% as a result of the recession, and has stayed in that range since 1993. A large part of this decline was due to a fall in the participation rate, which is often cited as the "discouraged worker" phenomenon. Although this recovery also saw the Canadian economy adjusting to the new free trade environment and the low inflation environment, there is a perception that the cyclical recovery has been weak. This is due to the fact that the recession ended in 1991 and Canada's unemployment rate remains at 9%, which is about four percentage points above its American counterpart.

"The unemployment rate today remains stubbornly and unacceptably high at 9%. Still, there has been improvement in employment growth, with seven consecutive monthly gains in employment... Youth employment has in fact increased by more than 50,000, with at least three consecutive months of growth since May, the largest sustained increase since 1994."

Mr. Thomas d'Aquino (President and CEO, Business Council on National Issues)

"The bottom line is that our recovery will last only 18 more months instead of the four years we would need to return to full employment as the U.S. has done."

Mr. Pierre Fortin (Department of Economics, Université du Québec à Montréal)

One factor distinguishes this period from previous ones, however, and might explain part of the apparently poor labour market performance. That is, we are still experiencing the effects of fiscal restraint on the part of Canadian governments, combined with substantial declines in public sector employment. From the beginning of 1993 to early 1997, public sector employment had fallen by more than 5%.

Since the latter part of 1993, the private sector has created over 1 million net new jobs in Canada.

Employment growth for women has slightly outpaced that for men since 1993.

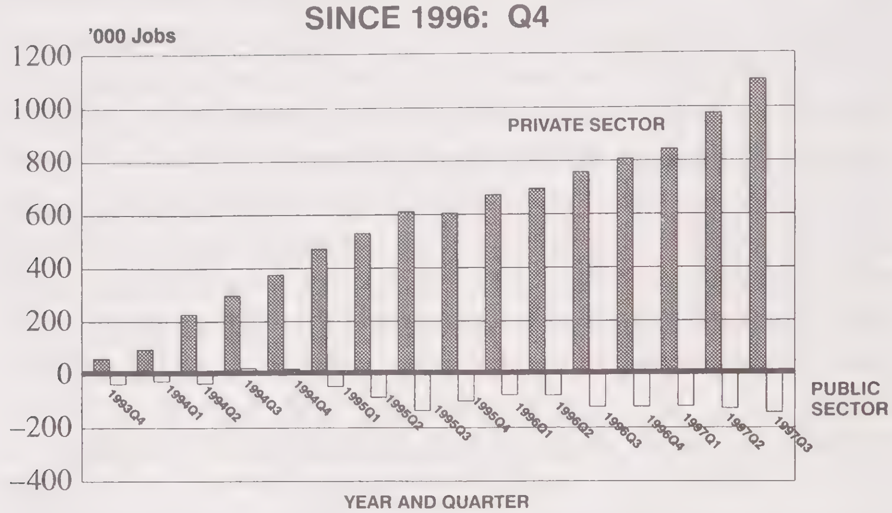
Nevertheless, it is encouraging to note that private sector employment has grown by about 10% in the same period. Total Canadian employment grew by 426,000 since January 1996 and 268,000 in the first ten months of this year. Since the fourth quarter of 1993, the private sector has created over one million jobs.

"The government must transform its success with the budget into healthy economic growth and the creation of sustainable jobs."

Mr. Manuel Dussault (Director of Research and Analysis, Alliance des manufacturiers et des exportateurs du Québec)

Clearly, the unemployment rate paints a bleaker picture than that indicated by job growth figures. Still, the less than satisfactory labour market performance requires continued attention.

CUMULATIVE JOB GROWTH SINCE 1996: Q4



2. *Recent Economic Growth: Exceeding Expectations*

The Canadian economy grew very slowly in the aftermath of the last recession. That seems to be changing now, as a variety of factors have recently combined to produce strong economic growth in Canada. Starting in the second half of 1996, the economy has been growing at rates in excess of 3% annually — in July 1997 alone, the economy grew by 0.8% — and has surpassed the predictions of most forecasters. As reported in the budget, private sector forecasters in 1996 were expecting 1997 growth to be less than 3%. By February of this year, their expectations were revised upward to 3.3% and the forecasters now think that growth will be as high as 3.7%.

The Royal Bank's *Economic and Financial Market Outlook: 1998-99* indicates that, when it comes to economic growth among the G-7 countries, the years 1997 and 1998 clearly belong to

Canada. Canada's growth is expected to be either at the top or very close to it in each year and the Canadian economy is the only one expected to experience consistently strong growth. The economists at other chartered banks are generally in accord — for example, the Bank of Montreal's *Medium Term Outlook for the US and Canadian Economies,* released on October 22, is forecasting growth of 3.8% in 1997 and 4.3% in 1998. In July, the bank's economists were forecasting growth rates of only 3.5% and 3.7% respectively. And the most recent survey by Consensus Economics Inc. is equally upbeat. That survey shows improved expectations about the economy's performance, this year and next. Strong growth and low inflation are expected to characterize the Canadian economy until the end of this decade, at the very least.

Private sector forecasters expect growth of about 3.7 per cent in both 1997 and 1998 - the strongest back-to-back growth in almost 10 years.

There is still the potential for significant reductions in Canadian unemployment, although its impact will not be spread evenly across Canada, according to a recent Nesbitt Burns study.[2] It notes that, with continued economic growth at the current pace, unemployment should fall to 7.5% within 12 to 18 months. Thus the labour market picture should soon fall in line with other indicators of the economy. According to the study, further fiscal and monetary stimulus is not needed to get us there and cannot generate even lower unemployment rates.

The study adds that Canada's unemployment problem is no longer a macroeconomic problem, but a "micro" problem. Excess demand for labour exists in provinces such as Manitoba, Saskatchewan and Alberta, while excess labour supply exists in places such as Quebec and Atlantic Canada.

"It is the nature of the local labour force that determines a lot of the critical decisions about not only where jobs are located but what kinds of jobs are being created."

Ms. Judith Maxwell (President, Canadian Policy Research Networks Inc.)

A similar trend can be found in the International Monetary Fund's assessment of Canadian prospects. In May 1997, it revised upward its own expectations of Canadian growth and concluded that Canada would lead the major industrial nations in growth in both 1997 and 1998, with rates of 3.5% and 3.4% respectively.[3] And it would do so with inflation well below 2% per annum, lower than

2 S. Cooper and A. Araujo, *Regional Diversity: The Canadian Unemployment Story*, Special Report, Nesbitt Burns, Toronto, November 14, 1997.

3 International Monetary Fund, *Globalization: Opportunities and Challenges,* World Economic Outlook, May 1997.

that found in most of the major industrialized nations. According to the IMF's survey of inflationary pressures, there was no indication during the early part of the year that inflation would increase.

"I think that buoyant growth over the next few years puts us in a superb position to pay down debt."

Mr. William Robson (C.D. Howe Institute)

The reduction in government deficits, the return of business and consumer confidence and the government's monetary policy have all contributed to current strong growth, according to the IMF report. In the opinion of that organization, "the strength of fundamentals in Canada bodes well for continuing recovery in 1997-98, with inflation remaining within the target range."[4]

3. Low Inflation Benefits Everyone

"The most accomplished and the most respected central bank in the world... has, against enormous odds from the point of view of the conduct of fiscal policy, saved Canada from really terrible economic consequences.... John Crow really is a kind of Canadian hero. We now see the results of John Crow's work. We see it in terms of the interest rates that are lower than are achieved in the United States."

Dr. Michael Walker (Executive Director, Fraser Institute)

As noted above, the recent strong growth in Canada is being achieved while inflation remains at historically low levels. The beneficial effects of low inflation are clear for all to see. One of these is low interest rates. Canadian interest rates are at levels that have not been seen in decades. This year, the 3-month Treasury Bill rate has averaged 3%, compared to almost 11% in 1990. The prime rate is under 5% versus 14% in 1990, 5-year mortgages are 7.2% versus 13.4% in 1990; and 10-year Government of Canada bonds are 6.3% versus 10.7% in 1990.

Canadians paid a high cost to achieve low inflation and they told us they do not want to see a return to the high rates of the early 1990s.

"Canadian interest rates are now lower than interest rates in the United States, all the way out to 30 years. That is the consequence of sound fiscal and monetary policy in Canada."

Mr. David Laidler (Department of Economics, University of Western Ontario)

Not only have Canadian rates fallen, they are now below American rates for similar maturities. This is now true for both the short-and very long-terms. While Treasury Bill rates in Canada have been below their American counterparts since early 1996 and have been more than 200 basis points below American rates for a year now, Canadian 30-year rates have recently fallen below their American counterparts as well, a development which would have been hard to believe only a few years ago. All of this indicates that expectations of low inflation have now taken hold in Canada. Investors are willing to accept lower returns than those available in the United States because of their confidence in the purchasing power of the Canadian dollar.

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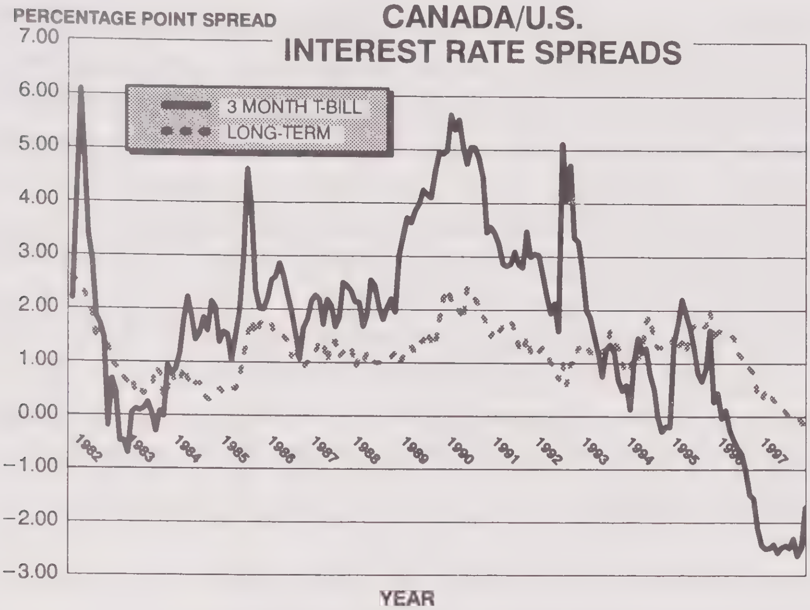
4 *Ibid*. p. 23.



This low inflation and the resultant low interest rates are the direct result of the commitment by the government and the Bank of Canada to maintain inflation within the fixed bounds, namely 1% to 3% per year. Since the establishment of inflation targets in 1992, Canadian inflation has never exceeded the target range and has generally been in the lower part of the range. Also, since that time, Canadian inflation has consistently been below the American rate, the gap often being close to 200 basis points.

"The rate of money growth that's compatible with the Bank of Canada and the government's own inflation target in the long run is probably somewhere in the region of 3% to 6% per year."

Mr. David Laidler (Department of Economics, University of Western Ontario)

Until a few years ago, the credibility of Canada's inflation targets suffered from the fact that the fiscal policy of the Government of Canada was not consistent with, and not supportive of, a policy of low inflation. The temporary increase in interest rates that comes about from additional monetary restraint tends to increase the debt-to-GDP ratio of any government running operating deficits, or small operating surpluses. Continued growth in the debt-to-GDP ratio is ultimately unsustainable, and such a fiscal policy is inconsistent with a monetary policy of low inflation. Thus some might come to doubt the ability of a central bank to achieve its inflation goals in such a circumstance. Today, Canada's credibility in this area is well established. With large operating surpluses, Canadian fiscal policy is entirely compatible with a monetary policy of price stability.

Not only is the fiscal policy consistent with the monetary policy that is reducing inflation and interest rates, but the fiscal policy is itself responsible for lower interest rates, today and in the future. The higher the debt-to-GDP ratio of a government, the higher the interest rate it must pay on its debt. Now that the debt-to-GDP ratio of the government sector in Canada is in decline, the risk premiums associated with such debt should continue to decline.

The effects of low interest rates are felt most dramatically in the housing market. Housing affordability indices, which measure the proportion of household income consumed by home ownership costs, are now at the lowest level in a decade. At about 30% of household income, this index is 40% below its peak, reached in 1990, and 20 to 25% below levels in the mid-1980s. With this improved affordability has come a sharp increase in housing sales and new home construction in the past three years.

Spending on consumer durables in general is expected to rise. While such spending grew by only 3% in 1996, it is expected to grow by almost 11% in 1997 and over 7% in 1998.

Low interest rates are also good news for households and their ability to carry their own debt burden. Household debt has grown steadily over the past ten years and now exceeds 100% of personal disposable income. (Part of the recent rise is due to the acquisition of financial assets by households.) As a result of low interest rates, only 7% of income is required to service the debt, versus more than 10% in 1990.

All of this adds up to a marked improvement in the economic fundamentals of the Canadian economy. The past year has been a good one and expectations are that this will continue. One measure of these fundamentals is the state of consumer and business confidence. In October, the Economic and Fiscal Update remarked that the Conference Board of Canada's measure of consumer confidence was at its highest level in eight and a half years. Less than two weeks later the Conference Board reported that consumer confidence was near a ten-year high.

While consumer confidence has been slow to manifest itself until recently, business confidence has moved upward through much of this decade. The most tangible evidence of this is changes

in business non-residential investment. This measure of investment has been growing since 1993, but it has recently jumped to very high levels. The most recent data indicate investment growth rates of 20% per year.

Evidence that consumer confidence is improving comes from the fact that domestic demand is now strong and is the source of much of our economic expansion. For much of the post-recession period, any improvement in the Canadian economy was largely driven by exports, fuelled primarily by the strong growth of the American economy. With that economy far into its expansion, there was always the fear that an American economic slowdown would take the wind out of the Canadian recovery before it ever got going.

There is less fear of that happening now that the various factors supporting the Canadian economy are more in balance. While the export sector continues to enjoy growth, low interest rates and increasing employment are giving Canadian families the confidence to spend.

Not only is improved consumer confidence an indication that the sources of economic growth are becoming more balanced, it is also an indication that the benefits of a better functioning and expanding economy are more evenly distributed as well. Business confidence, at record levels today, had recovered quite early in the economic recovery. At the same time, consumer confidence was lagging. Today's increased consumer confidence indicates that families are beginning to enjoy a greater sense of economic well-being.

CHAPTER 2

A. ENSURING FISCAL SUCCESS

1. *Prudent Budgeting*

Federal budget making is now very different than it was only five years ago. The reforms adopted by the government were vital to achieving the recent reductions in the federal deficit. Witness after witness told the Committee how important it was for the government to continue to beat its deficit targets, and how doing this in recent years has greatly enhanced the credibility of the government in the eyes of financial markets, as well as those of the business sector and individual Canadians. Credibility is important in enabling the government to signal its intentions to the private sector. More importantly, a credible and prudent fiscal policy helps to keep interest rates in check, which in turn helps the government avoid tax increases. It also helps Canadian families directly because it reduces the costs of home ownership and lowers financing costs associated with the purchase of other consumer durables.

1.1 Contingency Reserve

The prudent economic assumptions used in past budgets were established in the following manner. Prior to the publication of the budget and the preparation of the Economic and Fiscal Update, private sector forecasters were surveyed with respect to their expectations regarding future economic conditions. In recent years, this sample has comprised 15 to 21 respondents. The prudent assumptions used by the government added 80 basis points to the private sector average forecast for short-term interest rates and 50 basis points to the private sector average for long-term interest rates. This Committee recommended in its first consultation report that the prudence factor be between 50 and 100 basis points. In the past, the government has used a prudence factor of as low as 50 basis points for short-term rates.

"I think the Minister and the Department of Finance are doing a very commendable job on their economic forecasts and the assumptions they're making."

Mr. Dale Orr (Individual Presentation)

This practice had two significant effects. The government's calculation of its debt servicing costs were raised as a result, and along with it, estimates of the size of the deficit — for example, a 100

basis point increase in interest rates adds $1 billion to the deficit in the first year.The assumption of higher interest rates also reduced the government's estimates of economic growth, leading to estimates of lower revenue and higher spending estimates. The 1997 budget contained prudent assumptions about nominal GDP growth that were 20 basis points lower than the private sector average for 1997 (4.7% vs. 4.9%) and 60 basis points lower for 1998 (4.1% vs. 4.7%). Sensitivity analysis contained in that budget indicated that a one-percentage point decrease in the nominal growth rate would increase the deficit by $1.3 billion. For the second year of the government's planning horizon, these prudent assumptions would increase the government's estimate of the deficit by about $2.5 billion.

The second component of prudent budgeting was the explicit inclusion of a Contingency Reserve. Initially, the government used a $2.5 billion Contingency Reserve for year one in its two-year planning horizon and a $3 billion reserve for year two. The higher reserve was justified because of the greater uncertainties that exist when planning further into the future. This approach was changed slightly in the 1997 budget, with a $3 billion Contingency Reserve used for both years of the planning period.

A $3 billion Contingency Reserve protects against the first-year effects of a 300 basis point increase in interest rates or a 2.3 percentage point decrease in nominal GDP growth. Prudent economic assumptions and the Contingency Reserve provide a $4 billion deficit cushion in year one of the budget horizon and a $5.5 billion cushion in year two.

The government's current policy does not allow the Contingency Reserve to be used to finance program spending. If it is not needed, it has gone to reduce the deficit. The Minister of Finance told the Committee that the same principle would apply to a Contingency Reserve in an era of budgetary surpluses. If it is not needed, it will be used to reduce the Government of Canada's net debt.

The Committee believes that the practice of prudent budgeting should continue — it is as vital in a world of debt reduction as in a world of deficit reduction. Moreover, many of the economic,

financial and political risks that existed a few years ago will still be present in the future. The short-lived stock market turmoil at the end of October and the current events in Asia are examples of such risks, which often originate outside Canada and are beyond our control.

The budget will be balanced by no later than 1998-99.

In the few short years that this Committee has been holding pre-budget consultations, we have been told repeatedly that governments must use prudence when drafting budgets. Of course, prudence is always appropriate. Consider that interest rates are still near their historically low levels, and are more likely to go up than to fall. And, while inflation remains under control in most nations, (reducing the chances of a recession triggered by monetary policy) and while the near-term outlook for the Canadian economy is excellent, the possibility of an economic slowdown grows every year. The North American economies are well along in their recovery, and the American economy is likely operating at or above its capacity. American growth rates are thus bound to decline, which will undoubtedly impact Canada's economy. And, of course, political uncertainty is always a factor to be considered.

Of course eliminating the deficit will not lessen the importance of prudence. While federal deficits contributed to economic risks in the past, they were only part of the equation. We still have highly indebted governments, and until that indebtedness declines substantially, the government sector will continue to be a source of potential financial risk. Even though the federal government has made its debt structure more manageable, the sheer size of the debt and the heavy debt-servicing burden means that a very large portion of government spending continues to be beyond its direct control.

Thus, while we do not see any increase in the risks to budget making, we do not think they have disappeared, or even declined substantially. Recent practice has served Canadians well and it should be continued. As the government has increased the term-to-maturity of its average debt outstanding, we believe that it should be able to increase the prudence factor with respect to longer-term interest rates when circumstances warrant, as it does

with short-term interest rates. We believe that the following recommendations should help to ensure that the federal government never again runs a deficit after 1997-98.

Thus, the Committee makes the following recommendations.

RECOMMENDATIONS

- **The Committee recommends that the Government of Canada continue to use prudent economic assumptions in the formulation of the budget.**

- **The Committee recommends that assumptions about both short- and long-term interest rates should be 50 to 100 basis points higher than the private sector average. The Minister should alter the prudence factor as circumstances warrant.**

- **The Committee recommends that the government continue to employ a Contingency Reserve, which should be set at $3 billion per year. As at present, the Contingency Reserve should not be used to fund either increased program spending or tax cuts.**

2. *Budget Targets*

The deficit for 1996-97 was $8.9 billion — down $19.7 billion from 1995-96. This represents the largest year-over-year improvement in Canadian history.

Another of the government's budgeting innovations was the replacement of the traditional five-year projections with two-year rolling targets. The five-year forecasts were abandoned because of the inability of the government to accurately project that far into the future. The results frequently proved to be so inaccurate that the entire process of longer-term projections lost all credibility. On the other hand, two-year rolling targets are sufficiently immediate that the economic data upon which they are based is much more accurate, so only extraordinary events would excuse any failure to meet them. This practice also prevents the government from delaying required action until later in the planning period. As the Minister of Finance has stated on numerous occasions, these targets help to provide a standard to which the public can hold the government accountable.

The Committee believes this practice has served Canadians well and should be continued.

Thus, the Committee makes the following recommendation.

RECOMMENDATION

- **The Committee recommends that the government continue to use two-year planning horizons for the conduct of fiscal policy.**

The government did more than make budgetary projections over a two-year period, however. It set targets to which it was committed and these targets became the benchmark against which the government's fiscal policy was judged. This practice brought transparency to government policy and imposed accountability on its actions. The fact that deficit targets were bettered every year earned the government a degree of credibility that had been lacking in the past.

"In our view, the Government of Canada's main priority must be to attain and maintain a balanced budget."

Mr. Manuel Dussault (Director of Research and Analysis, Alliance des manufacturiers et des exportateurs du Québec)

Having witnessed the value of deficit targets in restoring fiscal balance, the Committee favours their continued use in the new fiscal environment. What, however, should these new targets be?

The targets which are chosen will largely determine how the fiscal dividend is allocated. For example, if the government's target is ever-increasing surpluses, then it is giving almost exclusive priority to debt reduction, since by definition a surplus represents a reduction in net debt. If, on the other hand, the government targets a balanced budget, it accords little importance to debt reduction since the level of net debt would remain constant over time. We wish to seek a balance between these two alternatives.

"Now is the time to get our fiscal house in order and bring the debt down to a level where it or its carrying costs will never again threaten the economic health of our country. The time has come for true leadership... regarding our national fiscal policy. Leadership means facing the hard questions..."

Mr. John Maher (Lighthouse Family Resource Centre Inc.)

RECOMMENDATIONS

- **The Committee recommends that the government establish a fiscal target of a balanced budget for 1998-99 and all subsequent years. As is the current practice, this target should include a $3 billion Contingency Reserve and should be based on prudent economic assumptions.**

- **The Committee recommends that the government take steps to accelerate the downward trend in the net debt-to-GDP ratio and not rely solely upon growth in the economy. The unneeded portion of the Contingency Reserve should be applied to debt reduction.**

"We must start paying down the debt so that it will be reduced for future taxpayers..."

Mr. Benoît Latulippe (Fédération des étudiants et étudiantes universitaires du Québec)

"I think we do need to have some explicit targets... (they) keep the government's feet to the fire. That's a good way to do it, because you do have something against which to measure the performance of the government..."

Mr. Josh Mendelsohn (Senior Vice-President and Chief Economist, Canadian Imperial Bank of Commerce)

These recommendations would help ensure that the government need not run a deficit in future years. With the continued use of a Contingency Reserve, it means that the government must plan for an underlying surplus of $3 billion per year. In the absence of unforeseen events, the net debt would decline by at least $3 billion per year.

Deficit reduction and balanced budgets are goals that lend themselves to short-term targets. A debt-to-GDP target is a longer-term goal.

We note that in 1985-86 the net debt amounted to about 50% of GDP and grew steadily for ten years, peaking at 74% of GDP. It was during this period that the damaging effects of fiscal excesses had the greatest impact.

RECOMMENDATIONS

- **The Committee recommends that the federal government establish a long-term target for a sustainable debt-to-GDP ratio.**
- **The Committee recommends that the federal government establish an interim debt-to-GDP target range of 50% to 60%, to be achieved in this mandate.**

"In framing the upcoming budget we would ask the government to address those concerns in several ways, first by providing some clear framework around which Canadians can determine what level of continuing debt they might consider appropriate."

Mr. Don McIver (Board of Trade, Metropolitan Toronto)

B. DEFINING CANADIAN PRIORITIES

1. Allocation of the Fiscal Dividend

The government has proposed that future fiscal dividends be allocated among three alternatives: enhanced program spending, tax relief and debt reduction, over the course of its mandate. Program spending is to account for 50% of the dividend, with the remaining half to be split between debt reduction and tax relief.

"We hear a great deal of talk these days about the fiscal dividend. Well, we don't have one yet. It is on the horizon, and I hope it will be used wisely when we reach that point."

Mr. Jimmie Gorman (Individual)

The Committee believes this to be a reasonable approach to the fiscal dividend's allocation. Program spending cuts accounted for the bulk of the government's restraint measures: about $6.90 in spending cuts for every dollar of revenue enhancement, and no increase in personal income tax. Indeed, program spending in 1996-97 was almost $18 billion less than its peak only four years earlier. As a proportion of GDP, it now amounts to just over 13%, and

this ratio is still falling. Rarely in the post-war period have we seen such low levels of program spending in relation to the size of the economy.

This reduction in program spending stands in sharp contrast to the relative stability of budgetary revenues when measured against the size of the economy.

Moreover, the Committee has recommended that, once the deficit is eliminated, any unneeded portion of the Contingency Reserve be applied directly to debt reduction, much as it is currently applied to deficit reduction. As a result, we expect that the first $3 billion of future surpluses will be applied to debt reduction before any fiscal surplus is allocated to new spending or tax relief measures. This fact, coupled with reasonable expectations about future growth, should cause the net debt-to-GDP ratio to fall at an acceptable pace.

It is the restriction on the use of unneeded Contingency Reserve funds that gives debt reduction priority as a claim on the government's resources.

The Committee wishes to make clear that while we expect the government to have resources to spend in the near future, these should be spent with care, with a view to achieving measurable results and within a framework of accountability. New resources, whether they are invested through new programs or significant changes to existing programs, should be subject to some form of performance guidelines. These guidelines would spell out what the program intends to do and how its results will be measured. If it fails and cannot be improved, the program should be terminated.

"Spending increases ... have to be focused on priorities, and there need to be clear objectives and accountability with respect to this. We don't want to get back into the situation where the government is throwing dollars at programs without some sense about what the benefit is going to be in doing this."

Mr. Robert O'Rourke (President, Simscape Development Corporation)

But safeguards should be implemented before a new program is initiated. Program Review provides such safeguards and the Committee believes that all new initiatives must be rigorously put to the test of Program Review.

Thus any new initiative must demonstrate that it is in the public interest by addressing an evident problem. If there is a problem, is it one that can best be resolved by government or would the private or voluntary sectors be more appropriate? If it is a problem for

"We feel debt reduction should be a high priority ... Spending increases are necessary in some areas but should be carefully reviewed."

Ms. Marie White (Acting Mayor, the city of St. John's)

"...bringing the deficit down has also caused some inequities, and we should be looking to use some of this gain against some of these inequities."

Ms. Maureen Farrow (Loewen, Ondaatje, McCutcheon Ltd.)

"The progress made to date has not been without much pain and dislocation for many Canadians."

Mr. Thomas d'Aquino (President and CEO, Business Council on National Issues)

"While we're reducing that debt we also have to think about building a strong economy for Canadians and our Canadian people."

Mr. Francis Reid (General Manager, Construction Association of Prince Edward Island)

"We think that the debate now should focus on national priorities, on building a strong economy and a strong society."

Mr. Richard Paton (President and CEO, Canadian Chemical Producers' Association)

government, is the federal government the appropriate level to deal with the problem? And if so, what is the most effective and efficient way to deliver the program? Of course any new program must meet the test of affordability. While affordability is a necessary requirement, we must not presume that it is a sufficient basis for a new program.

The Committee wishes to stress that this review would not be an exercise in empire building but rather the implementation of a new set of checks and balances to ensure Canadian taxpayers get real value for their tax dollar, when it comes to new programs.

As noted earlier, the most challenging element of Canada's economic recovery has been the inability to substantially reduce the unemployment rate. There are a number of different facets to the problem of unemployment. For instance, the youth unemployment rate remains stubbornly high, and is considerably higher than the rate for the general population. We were told repeatedly that the lack of jobs is the principal cause of poverty. Disabled Canadians face daunting barriers to employment. Unemployment often amplifies the difficulties these and other vulnerable groups already face. Canadians told the Committee that addressing the problem of joblessness must be a national priority.

Thus new initiatives must reduce barriers to labour participation and promote greater labour market flexibility, as well as creating the environment in which jobs are created. New spending initiatives, therefore, should promote the government's growth and job creation agenda.

We therefore make the following recommendations.

RECOMMENDATIONS

- **The Committee recommends that, over the course of the government's mandate, one half of future fiscal dividends be allocated to renewed and enhanced program spending measures, to meet the social and economic needs of Canadians.**
- **The Committee recommends that any new spending initiatives be subject to the rigorous and detailed test of the principles of Program Review and that the results of that review be published at the time any new program is announced.**

- **The Committee recommends that new spending initiatives be consistent with the government's jobs and growth agenda.**

- **The Committee recommends that a gender analysis be conducted and published for new initiatives.**

RECOMMENDATIONS

C. BUILDING A COMPETITIVE ECONOMY

1. *High Technology and Higher Learning*

A recurring theme heard by the Committee concerned the important role that the new economy could play in enhancing Canadian competitiveness, improving our health care, stemming the brain drain and providing new sources of financing for our institutions of higher learning.

"For once, people are consulting one another to see what could be done with those surpluses. They have to be used in the most proper way and we should take our time to spend the money in those areas where it is most important for future generations."

Mr. Bernard Côté (Organisation d'aide aux sans-emploi)

"There will be many proposals, ideas, and contenders for increased spending in many areas of government responsibility. Of course, it is not going to be possible for all of those to be acted upon."

Dr. John Hylton (Executive Director, Canadian Mental Health Association)

1.1 Basic Research and Granting Councils

The common element in all of these is basic research. Basic research is both the starting point for all applied research and commercialization activities, and the fuel for Canada's innovation engine. The essential ingredient for basic research is government funding. The result is public-private partnerships to fund research, the introduction of entrepreneurial opportunities for universities and their researchers and the creation of employment opportunities for Canada's best and brightest students and workers. The government has already put in place the commercialization engine through programs such as the Networks of Centres of Excellence, Technology Partnerships Canada and the recently announced Canada Foundation for Innovation. Government initiatives have also led to the establishment of such innovative private organizations as the Canadian Medical Discovery Fund.

"This is a great example of a strategic investment of public funds and I use the word - strategic investment - with great care, I think these are words that should be precisely defined. In our case, I would say it means, to invest now in enable our young people to acquire the knowledge and skills to create wealth and produce prosperity for all Canadians in the future. Invest now to give them the skills so they will create wealth in the future."

Mr. Tom Brzustowski (President, Natural Science and Engineering Research Council of Canada)

How to adapt to the new and challenging economy that awaits Canadians is a major concern of the Minister of Finance and of the federal government. In his fiscal update, the third question assigned to the Committee for investigation was "...what is the best way that the government can help to ensure that there is a wide

range of job opportunities in the new economy for all Canadians?" The Canadian Consortium for Research has put together an action agenda called "Sustaining Canada as an Innovative Society." According to that agenda, the first priority is to renew the research infrastructure in Canadian universities.

Despite recent initiatives such as the establishment of the Canada Foundation for Innovation and permanent funding for the Networks of Centres of Excellence, it must be noted that federal support for research as measured by funding to the Granting Councils has declined.

Funding for the Granting Councils has dropped throughout this decade. In 1998, real funding for the Medical Research Council, the National Sciences and Engineering Research Council (NSERC) and the Social Science and Humanities Research Council (SSHRC) will be lower than in 1985. This is particular damaging since the three councils support the majority of research performed at universities, teaching hospitals and affiliated research institutes across the country. In other words, it is these Granting Councils that assist in the financing of the day-to-day costs of basic research in Canada.

"...the three federal granting councils... are the gatekeepers of Canada's standard of excellence in scientific research."

Dr. Barry McLellan (Coalition for Biomedical and Health Research)

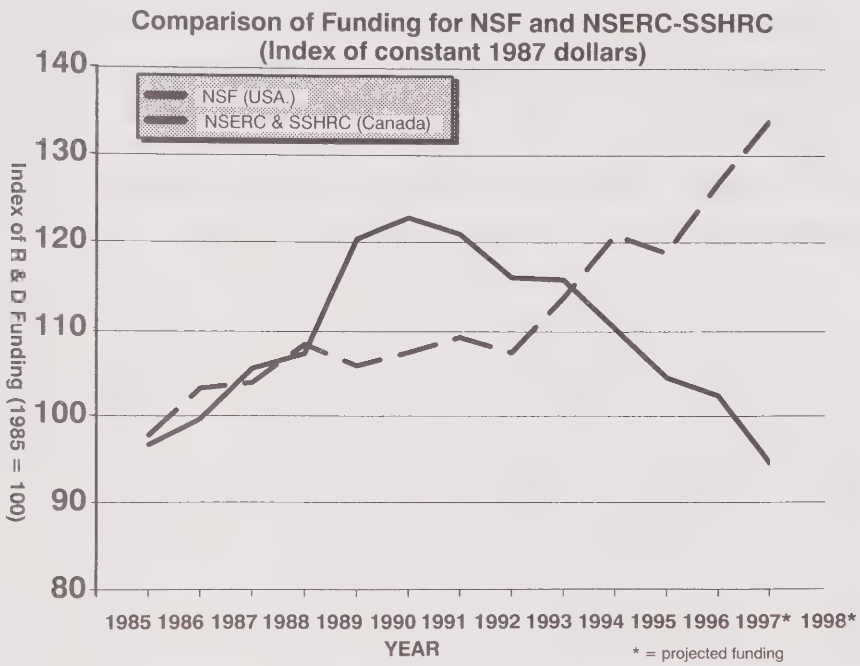
This funding trend is inconsistent with the government's stated intentions regarding research, and it is inconsistent with respect to other initiatives such as the establishment of the Canada Foundation for Innovation. The CFI is designed to finance the renewal of research infrastructure, in partnership with universities and the private sector. But new infrastructure will entail additional operating costs in the future, which cannot be financed by the CFI. In the absence of relatively secure operating finances, institutions might be reluctant to undertake new infrastructure initiatives. As a result, there is a possibility that the CFI may not be as effective as might otherwise be the case.

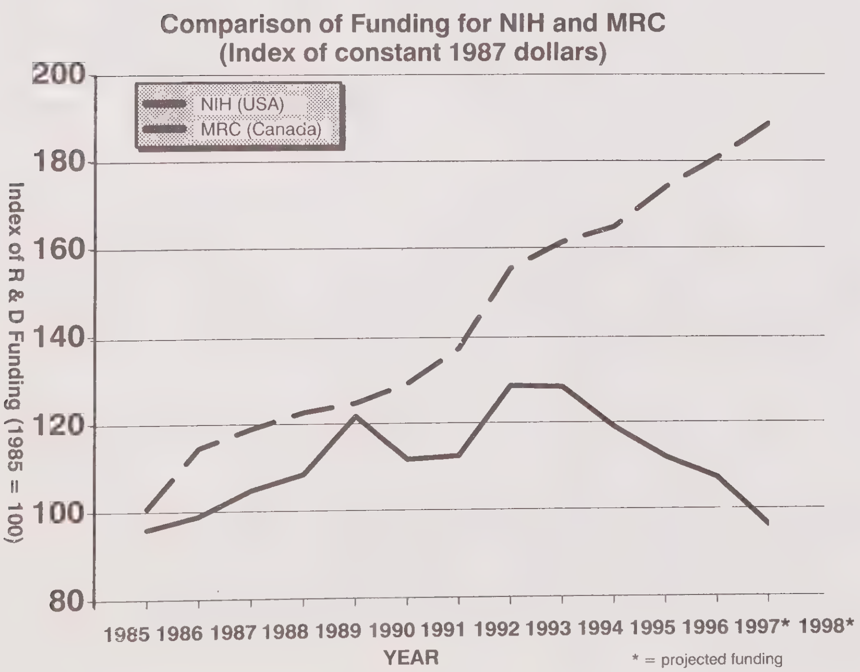
"Canada is going in the wrong direction compared to our competitors."

Dr. Barry McLellan (Coalition for Biomedical and Health Research)

This is even more worrying in light of fact that trends in other countries that are quite opposite to our own (see graphs at page 35). At the same time that MRC funding for 1998 will be below the 1985 level in real terms, the funding for the National Institute of Health in the United States will have increased by 80%. (The growth of funding for medical research in France and the United Kingdom

resemble the American example more than the Canadian one.) And while funding for the American National Science Foundation will have increased by over 30% in real terms over the same period, combined funding for NSERC and SSHRC in Canada will have declined by almost 10%.





The Canadian Consortium for Research made a recommendation to the Committee that would see the funding of the Granting Councils grow by about 50% by the year 2001-02. Their budgets in that year would be $357 million (MRC), $651 million (NSERC), and $139 million (SSHRC).

"University research is one of the key engines driving the creation of knowledge."

Mr. Marc Renaud (President, Social Sciences and Humanities Research Council of Canada)

Research is an integral part of the learning experience offered by universities. It is part of the growth and wealth creation process of the new economy. And it provides exciting career opportunities for Canadian youth. It gives young Canadians the opportunity to obtain the best skills and knowledge and the incentive to put them to use in Canada.

"Since 1994, the faculty of medicine ...(of) the University of Manitoba, has lost 22 highly qualified, productive young scientists, together with their sharp minds, their training—this was paid for by Canadian taxpayers—and, more importantly, their patents and intellectual properties, primarily to the United States of America."

Dr. Garry B. Glavin (Associate Vice-President (Research), University of Manitoba)

"A well-educated and well-trained future generation is a long-term gain or asset for Canada."

Ms. Edith Perry (Individual)

The federal government is vitally concerned with the state of post-secondary education in Canada. It is also concerned with enhancing prospects for the new economy and stemming the brain drain. Funding research activity allows the government to target its resources to get the greatest impact from each dollar spent. For example, it is well known that the tax burden in Canada is higher than in the United States and that this results in some loss of skilled jobs to the U.S. But to address the problem through reduced taxes is extremely expensive. A better way is to fund initiatives that create research jobs directly. Similarly, the federal government could enhance its block grants to the provinces and assume that adequate amounts flow to educational institutions. A more effective method could be to channel funds directly through Granting Councils.

The Committee agrees with the tone and thrust of the presentation made by the Canadian Consortium for Research and other participants in the research and development roundtables.

"Canada needs a fresh stimulus to adapt to ... the new economy."

Mr. Pierre Franche (Executive Director, Canadian Academy of Engineering)

Canada needs a fresh stimulus to adapt to the new economy, which will be characterized by "haut savoir-faire", if we want to maintain and improve the economic well-being of our citizens. The three Granting Councils are the gatekeepers of Canada's standard of excellence in scientific research. They are the key to making Canada a leader in the modern knowledge-based economy of the 21st century.

RECOMMENDATIONS

- **The Committee strongly recommends that the federal government make increasing funds available to the Granting Councils.**

- **The Committee also recommends that the federal government make a commitment to long-term stable funding for the Granting Councils.**

The Committee believes that this measure would be the most important action the federal government could take in the short term to boost long-term productivity, create jobs and help Canadians prepare for the economy of the future. We must invest now to give future generations the skills upon which this country will depend on to create wealth. It is a precondition for durable growth and job creation.

"Our competitiveness as a nation in future years will depend on our having up-to-date knowledge that's available only through basic research."

Mr. Donald Wells (President and Vice-Chancellor, University of Regina)

1.2 Investing in Innovation

In addition to investing in basic research, the government should invest in innovation by strengthening the ability of the private sector to transform knowledge developed in research laboratories into world-class products for global markets. During the Committee's consultations, there was support for creating increased targeted opportunities for knowledge transfer to small businesses and a favourable investment climate for stimulating growth sectors.

"Our message ... is very simple and that is that in order to grow, Canada needs investment. Our view is that investment in technology and investment in skills yields economic growth on a sustained basis."

Mr. Stephen Van Houten (President, Alliance of Manufacturers and Exporters' Association)

Developing a more innovative economy means improving Canada's capacity to turn knowledge into new products and services and bring them to market quickly. Witnesses noted the importance of responding to market forces in order to remain competitive. The government was urged to build on initiatives announced in recent budgets. Continued collaboration with the private sector will help government initiatives be responsive to the needs of the economy.

RECOMMENDATION

- **The Committee recommends that the federal government make strategic, targeted interventions in high growth sectors where Canadian firms can become world leaders through funding from Technology Partnerships Canada.**

RECOMMENDATION

- **The Committee recommends that the government improve the ability of the private sector, particularly SMEs, to transfer knowledge into world-class products for global markets through incremental funding for the Industrial Research Assistance Program.**

1.3 Scientific Literacy

"Thanks to small seed grants from the federal government, we've been able to persuade the private sector, universities and foundations to become involved in elementary education. Specifically, with a total of about $100,000 from Industry Canada over the last four years, we've been able to leverage more than $2.25 million from the private sector."

Ms. Bonnie Schmidt (Let's Talk Science)

Once again this year, the Let's Talk Science organization appeared before the Committee. The group has put in place innovative programs designed to improve the level of science education in Canada. Scientists, technologists and engineers engage in activities that train teachers in science education, engage youth in science, encourage girls to develop an interest in science and promote informal science learning.

The Business and Education Forum on Science, Technology and Mathematics is another important private initiative, sponsored by several major Canadian corporations. This organization should act as a catalyst to engage business, educational and governmental organizations in helping young people to experience and embrace the excitement of science, technology and mathematics so that they can successfully contribute to, and enjoy, an innovative Canadian society. This new business-education partnership should greatly foster science literacy.

"An educated society leads to a healthier nation, so education of our youth is extremely important and pays off."

Ms. Irene Dawson (President, Federation of Prince Edward Island Municipalities)

The Committee is encouraged by these initiatives. If successful they will increase the number of university science graduates. This should, in the long run, foster economic development and help create high skill/high wage job opportunities.

RECOMMENDATION

- **The Committee recommends that the government find ways to foster innovative initiatives such as Let's Talk Science and the Business and Education Forum on Science, Technology and Mathematics, to nurture a research and science culture in Canada.**

2. *The New Information Highway Infrastructure Program*

"It's not just bricks and mortar; it's education, health, training and communications."

Ms. Maureen Farrow (Loewen, Ondaatje, McCutcheon Ltd.)

The information highway is changing Canadian business and society. Private companies and individuals are building this new infrastructure and developing new applications. Given the depth of

the changes underway, profound questions are being raised for government. Should it be a spectator in this process, or should government actively engage these new developments to ensure that the benefits are maximized and equitably distributed among Canadians?

While accepting private sector leadership, there is a significant role that the federal government can and should play. If we are to become a "knowledge-based" society, we must ensure broad access to new media. At modest cost, the federal government could build on the model of libraries and public telephones by expanding the successful Community Access Program to ensure that most Canadians have reasonable access to the information highway. We are already leaders in connecting schools with the SchoolNet program, which should be expanded to meet new needs. With this unique infrastructure and a critical mass of users in place, Canada could position itself to be among the countries that benefit most from the knowledge revolution.

A coordinated effort to create the best regulatory and legal environment for electronic commerce would help us to develop new exporting industries. Working with the private sector, we can ensure that our backbone networks are kept on the cutting edge through established, successful programs such as CANARIE. The environment resulting from these actions would provide a powerful inducement for the development of "content" industries, such as multimedia, tele-health and tele-learning. With sufficient investment capital in place, these sectors are poised to thrive.

RECOMMENDATIONS

- **The Committee recommends that the government expand the SchoolNet program to ensure that all Canadian children have the opportunity to participate in the knowledge society.**

- **The Committee recommends that the government expand the Community Access Program, in cooperation with private sector partners.**

- **The Committee recommends that the government take a leadership role in establishing the worldwide legal and regulatory environment for electronic commerce.**

RECOMMENDATION

- **The Committee recommends that the government keep Canada's networks leading-edge by continuing the CANARIE program, and ensure that sufficient investment capital is available to new Canadian industries developing new applications for the information highway.**

D. BUILDING A STRONGER SOCIETY

1. Improving our Health Care System

Canada's health care system is a source of national pride. The fact that all Canadians, regardless of income or resources, have access to high quality medical care, without having to pay a fee, is identified as one of the most important factors in making Canada the best country in the world in which to live. It is also described as a characteristic which defines Canada as a compassionate society.

"The Council for Health Research believes that the committee has demonstrated an ongoing and strong interest in the health of Canadians and the integrity of our collective health research effort."

Ms. Audrey Vandewater (Executive Committee Member, Council for Health Research in Canada)

The Committee was told that, in recent years, Canadians have experienced new feelings regarding their health care system — concern about the quality of care, as well as fear about what the future may hold. Increasingly, Canadians are asking themselves if their much envied health care system will be there for them when they need it.

The fundamental problem is that the health care system that was put in place over 25 years ago was not designed to cope with such modern realities as diminishing financial resources, a growing and aging population, and rapid increases in the cost of medical technology. The system must adapt to these changing circumstances in order to continue providing quality health care to Canadians as we enter the 21st century.

"Canadians are looking for the federal government to play more of a leadership role."

Dr. John Hylton (Executive Director, Canadian Mental Health Association)

In recent years, the Government of Canada has taken steps to protect the integrity of the health care system, as well as to help prepare it for the challenges of the years ahead. The government has stated repeatedly that it is committed to protecting the five principles of the *Canada Health Act* (universality, accessibility, comprehensiveness, portability and public administration) and, on different occasions, has taken action to enforce compliance with the five principles.

The government has also acted to foster the evolution and the transformation of the health care system. The National Forum on Health (NFH), a consultative body chaired by the Prime Minister, was launched in 1994. It was given the mandate to involve and inform Canadians and advise the federal government on innovative ways to improve Canada's health system and the health of Canada's people.

"Atlantic Canadians believe in a strong federal government. We see that national standards in programs must be maintained, and these standards in many cases are more appropriately done or maintained federally."

Mr. Dave Neal (Fredericton Chamber of Commerce)

In 1997, the Forum presented its report. Among its conclusions were:

- the health care system is fundamentally sound;
- in Canada we spend enough money on health care;
- however, the present structure (of the system) cannot accommodate speedy and drastic reductions in funding without compromising quality of care;
- the non-medical determinants of health (e.g. gender, economic and social inequities, the environment, early childhood development, family structure, etc.) merit increased attention;
- we need a more integrated system that funds the care, not the provider or the site.

The government reacted favourably to the National Forum on Health report, and acted swiftly to put a number of its recommendations into practice. In response to the Forum's report, the 1997 budget provided $300 million over the next three years for additional health initiatives. Of that amount, $150 million will be allocated over three years through the Health Transition Fund. This Fund will provide the provinces with money for pilot projects designed to test ways of improving the health care system on the local level.

In response to the National Forum on Health, the 1997 budget provided $300 million for additional health initiatives.

Another $50 million will be invested in the development of the Canada Health Information System, a coordinated national system of health information. In response to the Forum's call to address the plight of underprivileged children, $100 million will provide

additional funding for two existing children's programs, the Community Action Program for Children and the Canada Prenatal Nutrition Program.

The government has continued to take action in response to the report of the National Forum on Health. In its most recent Throne Speech, the government pledged to:

- support Canadians in responding to the growing need for home care and community care;
- develop a national plan, timetable and a fiscal framework for providing Canadians with better access to medically necessary drugs;
- deal with urgent health problems in Aboriginal communities;
- establish an Aboriginal Health Institute.

The government also committed itself to expanding the Canadian breast cancer initiative, renewing the national HIV-AIDS strategy, and doubling the resources of the Tobacco Demand Reduction Strategy.

"The CMA is pleased that the federal government has pledged to re-invest in health care. We are encouraged by measures introduced in recent federal budgets."

Dr. Victor Dirnfeld (President, Canadian Medical Association)

Finally, the government has stated that it will restore cash transfers under the Canada Health and Social Transfer (CHST) to $12.5 billion a year, another recommendation made by the National Forum on Health.

RECOMMENDATIONS

- **The Committee applauds the government's initiative to increase the CHST cash floor to $12.5 billion per year.**
- **We also recommend that the government consider establishing, in cooperation with the provinces, health care providers and local communities, new approaches to health care, such as a national home care system.**

1.1 Anti-Smoking Measures

Another area directly related to health is the work being done on many levels to combat smoking. Smoking is the leading preventable cause of premature mortality in Canada. The most recent estimates suggest that more than 45,000 deaths annually in Canada are directly attributable to tobacco use.

The economic cost to society from tobacco use in Canada is estimated to be between $11 billion and $15 billion. Tobacco use directly costs the Canadian health care system $3 billion to $3.5 billion annually.

In the last three reports, the Committee recommended tax increases on tobacco products as much as possible without increasing smuggling. The last time the federal excise tax on cigarettes was increased was on November 28, 1996.

Increasing taxes on tobacco products is designed primarily to curb smoking, especially among the young, for whom price is often the most effective deterrent.

Almost 29% of young Canadians aged between 15 and 24 are smokers.

RECOMMENDATION

- **The Committee endorses the government's decision to double the resources of the Tobacco Demand Reduction Strategy. The Committee further recommends that the excise tax on cigarettes be increased.**

1.2 Supplementary Health Benefits

Another component of Canada's health care system is the network of supplementary health and dental benefits which benefit many Canadians. The Committee heard representations regarding the tax treatment of these plans. The possible taxation in the hands of employees of employer contributions to group health and dental plans is feared by many. The rationale for taxing these benefits would be to address the inequity between those who have supplementary health and dental protection and those who do not and therefore cannot benefit from the favourable tax treatment.

Two years ago, it was estimated that 3.6 million Canadians were not covered by supplementary private or public health and dental plans: 2 million Canadians to whom employers could have offered coverage under group plans but did not, 1 million unincorporated self-employed entrepreneurs and their dependents, whose health and dental coverage is not a deductible business expense, and 600,000 Canadians who are not employed, not eligible for special government plans and not covered as dependents under public or private plans. The 3.6 million figure is now lower because of the introduction of a universal drug insurance program in Quebec in 1997.

"The government's decision to support the provision of tax exempt and dental benefits to employees has proven to be among its most effective health measures."

Dr. Toby Gushue (President, Canadian Dental Association)

Enabling all Canadians to benefit from supplementary health and dental plans is a means of ensuring that everyone has equal access to the health care system. To begin to achieve this end, the government must recognize the changing nature of work. An increasing number of Canadians are self-employed or are working for SMEs which do not offer health and dental plans. This is why the Committee is making the following recommendations.

RECOMMENDATIONS

- **The Committee recommends that unincorporated businesses be allowed to deduct the cost of supplementary health and dental coverage from income, to put them on the same footing as the incorporated self-employed.**

- **The Committee further recommends that employees whose employers do not provide a supplementary health and dental plan be able to deduct, from income, the costs of acquiring adequate private coverage.**

2. Helping Canadians with Disabilities

During this year's pre-budget consultations, many witnesses recognized the fact that the federal government had introduced important and effective measures to help disabled individuals.

Those measures were a response to past recommendations made by the Finance Committee and by the Federal Task Force on Disability Issues. The Task Force consulted with more than 2,000 Canadians and reported in October 1996 with over 50 recommendations. The key message was that living with a disability almost always entails additional costs and that the federal government should take action to address this issue. In last year's report, the Committee fully endorsed the recommendations.

The 1997 budget proposed measures to reduce the disability-related costs that stood in the way of full participation of Canadians with disabilities. Many of these were recommendations found in last year Committee's report. Among other measures, the list of expenses eligible for the medical expense tax credit will be broadened to include such things as: air conditioning for individuals coping with a chronic ailment (50% of the cost up to $1,000), the cost of an adapted van (20% up to $5,000), moving

expenses to an accessible house, sign language interpreters fees, reasonable expenses to alter a driveway to facilitate access to a bus. The government also introduced measures to increase the limit on part-time attendant care expenses from $5,000 to $10,000. The $5,000 limit on the deduction for attendant care expenses for disabled earners will be eliminated.

Because Canadians with disabilities who enter the workforce often face additional costs and because they can lose important benefits provided by income security programs, the government has introduced a refundable credit for low-income working Canadians earning at least $2,500 and facing high medical expenses. The credit will provide supplementary assistance to the existing medical expense tax credit (the lesser of $500 or 25% of eligible expenses). This should help eliminate the welfare wall the disabled often face.

"I think it's absolutely imperative that the federal government take a leadership role in establishing an initiative for a comprehensive and co-operative federal-provincial approach in the area of disability-related policy and programs."

Mr. Gary McPherson (Chairman, Premier's Council on the Status of Persons with Disabilities

The government also announced the establishment of an Opportunity Fund for persons with disabilities. This three-year initiative should help develop strategies to reduce barriers to participation. A number of disabled Canadians could work part-time or full-time if they were provided assistance to prepare for, find and keep jobs.

The new tax measures for Canadians facing significant medical costs will increase the tax assistance by $70 million annually. The federal government will inject $30 million in the new Opportunity Fund.

"For Nova Scotians with disabilities the importance of federal participation and leadership in all of these areas is critical. The federal spending power must be used to ensure that an appropriate level of program equity exists across the country. "

Ms. Nita Irving (President, Nova Scotia Disabled Persons Commission)

These measures significantly increase the assistance announced in the 1996 budget when the government doubled the tax credit for those who provide in-home care for family members with disabilities. The Committee is encouraged by the measures announced in last year's budget.

RECOMMENDATION

- **The Committee recommends that the government continue working with groups representing persons with disabilities to ensure that measures recently announced are effective, and to find further ways of helping Canadians with disabilities.**

RECOMMENDATION

- **The Committee also recommends that the government consider extending the medical expenses tax credit to recognize the expenses incurred by parents of children with some learning disabilities.**

"We know we have parents in crisis... Parents in some areas have had to pay for speech, occupational, and psychological therapy ...What these parents need is a disability tax credit to recognize that those expenses are legitimate."

Mr. James Horan (President, Learning Disabilities Association of Canada)

Such a measure would help parents who must invest in expensive materials as well as psycho-educational assessments, speech, occupational and psychological therapy. More importantly it would help children with a learning disability to become self-sufficient and productive members of our society.

3. *Initiatives in Support of Children*

"As the parent of a child who has learning disabilities, I can tell you that we live with this every day."

Mr. Roy Cooper (Learning Disabilities Association of Canada)

The federal government is extremely concerned about the well-being of children, especially those living in low-income families. The Committee was also deeply concerned when it heard that 900,000 children are in families that rely upon food banks.

"When you're looking at spending on children, you need to look at it as an investment, not as sunk money that doesn't have a return."

Mr. Mel Gill (Child Welfare League of Canada)

Children are among the most vulnerable members of our society. Canadian citizens have an obligation to protect our children. They are our future.

While there is no consensus as to how to measure child poverty, there is no controversy about the impact child poverty has on children's development. Studies tell us, that early intervention benefits brain development in the early stages of life. By not acting upon this knowledge we would be abdicating our responsibility to provide children with the opportunity to attain their full potential as active and productive members of our society. Investing in children simply makes good sense, on every level.

"At CAPC we have found that rigid rules and programming are a real barrier to those seeking help, support, and guidance. Instead, CAPC projects offer friendly, family-centred approaches that build on strength and address with respect whatever needs are identified and presented."

Ms. Joanna LaTulippe-Rochan (Coalition Member, Nova Scotia Association of Family Resource Projects)

Recent federal initiatives reflect this. The government announced $100 million in increased funding over the next three years for the Community Action Program for Children and the Canada Prenatal Nutrition Program. These programs fund community voluntary organizations across Canada that deliver services to address the development needs of young, at-risk children and address the problem of low birth weight babies among high-risk groups.

The government has also improved the child support system to ensure that custodial parents and their children receive the financial support they are entitled to and need.

Thanks to recent initiatives taken by the federal government, particularly an infusion of $850 million into the Child Tax Benefit, a national agenda for children is now developing. It involves a partnership that goes beyond the federal and provincial governments. It includes the important voluntary and non-governmental sectors as well. Together, these partners should be able to develop a plan ensuring that every child in this country will have an equal opportunity of becoming healthy, educated, self-sufficient and productive.

"We urge the federal government to continue to demonstrate leadership in this area and build on the past collaborative successes, such as community action programs for children."

Dr. Graham Chance (Canadian Institute of Child Health)

The Canadian Living Foundation proposed one such partnership in its fight against hunger. Through its Breakfast for Learning Program, the foundation has assisted communities in establishing over 1,800 nutrition programs and serving more than 22 million meals to children since its inception in 1992.

Federal, provincial and territorial governments are working together to build a National Child Benefit System. Discussions have progressed to the point where there is broad agreement on an approach for developing such a system.

This new Child Benefit System will address the problems low-income families with children face under the current regime. Right now, the combined effect of federal and provincial programs is to reduce a variety of child benefits for parents who leave welfare to enter the workforce which, for a two-child family, can represent a loss of $3,000 or more. They also lose a variety of in-kind benefits such as prescription drug and dental benefits. And their income is subject to tax (income taxes, CPP/QPP, EI premiums). Social assistance recipients are not subject to such taxes. Moreover, working parents face employment-related expenses as well as childcare.

"I think we can probably agree that the largest single problem we have now in Canada is the problem of children in poverty, particularly in single-parent families."

Mr. Paul McCrossan (Eckler Partners Ltd.)

We were told repeatedly that the answer to child poverty is jobs for their parents, yet the design of our social programs penalizes disadvantaged children when their parents have a job. Families with three children and net income of $21,000 will typically take

"We can't invest in children without also supporting and investing in their parents, especially mothers."

Ms. Stella Lord (Researcher, Nova Scotia Advisory Council on the Status of Women)

home less than forty cents on each extra dollar earned, a marginal tax rate higher than that imposed on the wealthiest of Canadians. It is little wonder that many people find it very difficult to leave the welfare rolls.

"To get to independence, the way things are now, that first rung is a little rickety, and I hate to say this, but welfare and EI make a lot more sense than many jobs... If you work, you should not be poor."

Mr. Ian McDonald (Mayor of Charlottetown)

The Working Income Supplement component of the current Child Tax Benefit is intended to mitigate this perverse situation, but does so only partially. Thus the federal government has decided to be a leader in harmonizing federal and provincial income support measures to successfully combat child poverty, and in designing a fairer system that would not act as a disincentive for poor families to leave social assistance. Starting in July 1998, under the new National Child Benefit System, low-income families will benefit from a simplified and more effective income support system. The new regime should help reduce the depth of child poverty in low-income working families and promote attachment to the workforce.

The federal government already provides over $5 billion in Child Tax Benefits and this total will grow to almost $7 billion per year as a result of measures already announced.

In order to finance the proposed Canada Child Tax Benefit, the Government of Canada will combine the existing $5.1 billion allocated to the Child Tax Benefit and the Working Income Supplement, with the $250 million committed in the 1996 budget and the $600 million announced in the 1997 budget for the Working Income Supplement. The government recently announced that it would invest an additional $850 million when fiscal circumstances permit. The provinces have committed to redirect an amount, comparable to that of federal assistance, in income support and children's services for low-income working families. Working together, the two levels of government should be able to provide a stronger income platform for poor families.

As an interim step the government has already announced in its last budget that the Working Income Supplement will be increased from $500 per family to $605 for the first child, $405 for the second and $330 for each additional child. A low-income working family with one child will see the annual benefit (CTB plus WIS) rise to $1,625. Low-income families with two children under seven should receive up to $3,476 once the new Canada Child Tax Benefit is in place.

The Committee is encouraged by all these initiatives. If successful, they will soon offer a better future to hundreds of thousands of children. Other measures such as increasing the value of the basic personal exemption and the married exemption will help increase the disposable income of low-income families.

RECOMMENDATIONS

- **The Committee recognizes the initiatives of the federal government to date and recommends additional resources be dedicated toward helping poor children as the fiscal dividend grows.**

- **The Committee further recommends that the federal government partner with communities, parents, provincial governments, private corporations, the agri-food industry and voluntary organizations such as the Canadian Living Foundation to create a national school nutrition program. This type of partnership approach could apply to other organizations and initiatives as well.**

"70% of Canadians believe that child hunger in Canada is more important than national unity or the deficit."

Ms. Martha O'Connor (Executive Director, Canadian Living Foundation)

We believe these initiatives will ensure a better future for Canada's children and help to provide better opportunities for poor children to fully participate in the Canadian economy and society.

"Strategic investment in a national school nutrition program is an investment in the future of all Canadians."

Ms. Martha O'Connor (Executive Director, Canadian Living Foundation)

4. Creating Opportunities for Canada's Youth

In response to the findings and recommendations of the Ministerial Task Force on Youth (1996), the federal government implemented the Youth Employment Strategy earlier this year. It is an action plan that builds on federal initiatives already in place for young people.

The Youth Employment Strategy will help over 127,000 young people.

One of the keys to the success of Canada's Youth Employment Strategy is that it does not attempt a "one-size-fits-all" approach to programming. For example, compare a youth living on the street to a university graduate who just cannot secure that all important first job. Both are unemployed, but they need different kinds of support to get them back on track.

4.1 Tangible Work Experience

One fifth of young Canadians have never had a job. Lack of work experience is a major stumbling block for most Canadian youth. The government introduced a number of measures, in 1994, to give young Canadians the opportunity to gain valuable work experience and develop job-related skills.

Studies indicate that 45% of new jobs created between 1990 and 2000 will require more than 16 years of education and training.

The Youth Internship program has proven overwhelmingly successful. Over two thirds of internship participants find jobs within six months of completing the program, many with the company or organization with whom they interned.

The Youth Employment Strategy builds upon that success by expanding internship opportunities. Internship programs will be established in partnership with the private sector and community organizations, in growth industries such as science and technology, the environment, international trade and international development.

Student Summer Job Action is another successful youth employment program. It features 14 initiatives designed to create summer employment opportunities for secondary and post-secondary students, including: Human Resource Centres for Students, Summer Career Placements and Student Business Loans, to name a few. These initiatives will help over 127,000 students by the end of next year.

RECOMMENDATION

- **The Committee recommends that the government continue to invest in youth and increase the current level of funding of the Youth Employment Strategy.**

4.2 Youth-at-Risk

The Committee heard from expert after expert about the new economy and the changing world of work. We know that tangible skills and knowledge are the essential tools in the new economy. Education and training are essential, and yet there is a segment of Canada's youth who cannot even access the basic necessities of life, let alone higher education. High school drop-outs, many Aboriginal youth, single mothers and street kids, these are Canada's youth-at-risk.

"If there is one group which should be made a priority, it is our young people."

Mr. Bernard Côté (Organisation d'aide aux sans-emploi)

Studies indicate that 45% of new jobs created between 1990 and 2000 will require more than 16 years of education and training. Yet 37% of on-reserve youth have less than a grade nine education.

These youth deserve the same opportunities as other Canadian youth, to look at the future with optimism, to hope, to dream and to accomplish. That being said, youth-at-risk face a daunting task, breaking the cycle of dependency, securing their first job and getting started on their career path.

Their needs are almost without limit: encouragement, mentorship, child care, communications and leadership skills, basic education, work experience and self-confidence. The fact is, standard work experience programs do not do enough to address these needs. Programs that focus on life skills, like leadership and communication, can provide these youths with the fundamental skills many Canadians take for granted. Youth Service Canada has continuously given at-risk-youth the help they need to succeed in the new economy.

RECOMMENDATION

- **The Committee fully endorses the recommendation made by the Ministerial Task Force on Youth (1996) " that youth-at-risk be given a high priority as the government, and its partners, develop new strategies to create opportunity for Canadian youth. " Hence, the Committee recommends that additional funding be made available for Youth Service Canada and Student Summer Job Action.**

5. *Debt Relief for Post-Secondary Students*

The Committee heard from student groups and others who noted that many university students are graduating with unprecedented debt loads now that they are expected to pay more of the costs of post-secondary education. We were told, for example, that students would be graduating in 1998 with an average debt of about $25,000.

"The volume of debt that graduates are carrying right now has jumped to $25,000 this year, from around $8,000 in 1990."

Ms. Jennifer Story (National Deputy Chairperson, Canadian Federation of Students)

For students who graduated in 1990-91, the average default rate on their student loans is 23%.

While it is generally accepted that students should bear a fair share of the costs of their education, since it represents one of the best investments they could make, governments at all levels are

also concerned about ensuring open access to institutions of higher learning. Students should not be barred just because they come from families with modest incomes.

"The federal government can be a lot of things to a lot of people. Its student loans program, ... enabled me to get an education, and for that I'm grateful."

Mr. Ian McDonald (Mayor of Charlottetown)

The federal government undertook a number of initiatives in this regard in the 1997 budget. It doubled to $4,000 the annual contribution limits for investments in Registered Education Savings Plans and made the plans more flexible, thus reducing the risks associated with their use. Funds in a wound-up RESP can now be rolled over into an RRSP, for example. The 1997 budget also increased the value of the education credit, included mandatory ancillary fees as part of the tuition credit and allowed the unused portion of the credits to be carried forward. It also allowed graduates facing hardship to defer repayments on their student loans for up to 30 months after the end of the six-month grace period after graduation. The federal government pays interest on loans during this period. This interest subsidy costs the federal government about $200 million per year.

The 1997 budget announced higher tax assistance for students and their parents. As well, graduates will have up to 30 months to begin paying their Canada student loans.

The changes announced in the 1996 and 1997 budgets will have increased the education credit from $80 per month in 1995 to $200 per month in 1998. The amounts of the education and tuition credit that may be transferred from students to parents has been raised from $4,000 to $5,000.

The Committee believes that there is no better place to invest the fiscal dividend than in our future. We have spent too long paying for the over-consumption of the past. It is now time to invest in Canadians and in a strong and productive economy.

To that end, we think that a further modification to the RESP could help to make it a better instrument for building up student finances. It was suggested to the Committee that the RESP be treated like RRSPs and thus allow taxpayers to deduct from income their annual contributions. We reject this because of its cost and because the benefit accrues to the contributor at the time of the contribution, not to the student at the time of study. Instead we suggest that the federal government match a small portion of contributions to RESPs by offering a "top-up" to the student beneficiaries of these plans during their post-secondary education. If, for example, a parent contributes $2,000 per year into an RESP

for a ten-year period, a 10% federal top-up on contributions would entitle the beneficiary to a $2,000 grant towards the cost of post-secondary education. This grant would not be available to parents who use the RESP proceeds for other purposes such as financing their own training or rolling it over into an RRSP.

- **The Committee recommends that the federal government establish a deferred credit formula for the RESP that would offer student beneficiaries a federal grant, calculated as a percentage of total RESP contributions. This grant would be disbursed in equal amounts in each year of a recognized post-secondary program.**

RECOMMENDATION

The Committee believes the federal government should do more to help alleviate the debt burden of students. The federal and provincial governments offer student loan programs, and students' debt result from a combination of the two programs.

"Student loans are very important. I have two children in university now, and one is not sure he wants to go to university... When they get out of university they are going to have one great big loan to pay back — never mind a home or plans for a home. There need to be more bursary types of write-off."

Ms. Edith Perry (Individual)

Better measures to assist students require an accurate assessment of the situation in which they find themselves. Loan maximums must reflect the cost of education and the likelihood of being able to supplement assistance with employment earnings. The special case of part-time students and those with family responsibilities must also be taken into account. Loan programs should not distort their incentives to continue working and schooling.

Once a debt is accumulated, the loans program should be designed so that it does not impose an excessive burden on students. Thus the Committee supports enhanced federal measures to alleviate student debt and make repayment easier. We therefore support a repayment schedule based on income. But we believe the government should go one step further and provide some degree of debt relief. As suggested by the Canadian Alliance of Student Associations, this debt relief should be needs-based and take into account the financial situation of graduates and their ability to make the transition into the job market. The Committee is also concerned about the barriers faced by students from low and modest income families who may wish to pursue post-secondary

"It would be unconscionable if post-secondary education in this country became accessible only to those from affluent backgrounds."

Mr. Gerald Brown (President and CEO, Association of Canadian Community Colleges)

education. Just the possibility of high future debt loads keeps many of these students out of post-secondary institutions. We believe the student loans program should help those students. Thus we make the following recommendation.

RECOMMENDATION

- **The Committee recommends that the federal government, in cooperation with the provinces and territories, offer students a debt repayment schedule that is based upon income, with features that may include interest relief, deferred grants and debt forgiveness.**

E. BUILDING A FAIRER TAX SYSTEM: THE BASIC CHOICES

As the Committee noted above, one-half of the future fiscal dividend is to go to debt and tax reduction. While debt reduction is a straightforward concept, tax reduction presents a variety of options to the government, depending largely upon what the government wishes to achieve from tax reductions.

"The APFF feels that it would be premature to immediately substantially reduce the tax burden on taxpayers before all governments in Canada start finding stable budget surpluses."

Mr. Yvon Caron (Association de planification fiscale et financière)

Most Canadians would agree that our total tax burden is higher than they would like it to be. In his Economic and Fiscal Update, the Minister of Finance stated that "the tax burden in Canada must be reduced. It will be reduced." However, he added that, "...until the (fiscal) dividend is large enough to safely support a meaningful reduction in the overall tax burden, the most responsible course is to bring in targeted tax relief where the need is greatest."

"Canadians are not asking for tax cuts."

Ms. Christa Freiler (Child Poverty Action Group)

Witnesses appearing before the Committee generally endorsed the approach recommended by the Minister. Except for the Canadian Taxpayers Federation, no witness argued in favour of across-the-board tax cuts. With the exception of Employment Insurance premium reductions, which constitute a special case and which we will discuss later, no witness argued in favour of immediate and broad tax cuts.

"Our position on the BCNI has not been to support the idea of immediate, up-front tax cuts... First, we want to see convincing progress on debt reduction."

Mr. Thomas d'Aquino (President and CEO, Business Council on National Issues)

Instead, witnesses argued that the federal government should start reducing taxes only when affordable, i.e. when the fiscal dividend is significantly large and when the budgetary gains we have so far achieved are on more solid ground. In the view of the

majority of witnesses, the number one priority should be debt reduction. There was almost unanimous recognition that expensive across-the-board tax cuts could jeopardize our fiscal gains and return us to a vicious fiscal cycle. The Committee agrees with this observation.

The government is certainly committed to rewarding hardworking Canadian taxpayers, who have all sacrificed so much over the past few years. But this Committee cannot recommend that a responsible government reduce the overall tax burden by cutting taxes across-the-board.

"We applaud the Finance Minister's acknowledgement in his October 15, 1997, presentation that a major tax reduction at this juncture would not make any sense."

Mr. Dan Overall (Director, Policy and Communications, Manitoba Chamber of Commerce)

First, we simply cannot afford it at this time. For example, reducing each of the three marginal tax rates by 1 percentage point would cost the treasury $3.25 billion. To eliminate both federal surtaxes would cost the government at least $2.5 billion. The 1998 budget is unlikely to have this much room to manoeuvre.

"Canada is on the right fiscal track, that our government needs to remain prudent and responsible in its budgetary policies."

Mr. Don Goodison (Certified General Accountants' Association of Canada, Partner, Kemp Harvey Goodison, Certified General Accountants)

Second, in the context of a small fiscal dividend, reducing budgetary tax revenues, without any matching reduction in expenditures, could damage our improved fiscal situation and our ability to reduce our huge debt load. Only recently have debt servicing costs fallen. Now is not the time to redirect more money to interest payments. Now is the time to make efforts to help the most vulnerable in society.

"On the other hand, tax cuts will deprive the federal government of the revenue needed to make social investments in children and families, and tax cuts will increase the likelihood that social spending cuts will be seen to be necessary the next time Canada experiences a serious recession."

Ms. Christa Freiler (Child Poverty Action Group)

Third, considering the large debt burden, it is too risky. Future economic conditions (such as a rise in interest rates or an economic slowdown) and the unpredictable nature of political events could seriously erode the small fiscal dividend we expect in the next few years. We know that a 1% increase in interest rates would cause the deficit to increase by $1 billion in the first year. As longer-term debt matures and is refinanced at the higher interest rates, the deficit in year four would be $2.6 billion higher. Eroding tax revenues at this time is premature.

Fourth, Canada's tax regime is not completely out of line vis-à-vis other industrial countries. Taxes raised by all level of governments in Canada equalled 37.2% of GDP in 1995 (see the table below). The average for the OECD member countries was 37.4% of GDP, while it was 36.6% for the G-7 nations. The United

States and Japan imposed significantly lower taxes, while Italy, France and Germany imposed higher taxes. Britain's taxes were modestly lower than Canada's as a percentage of GDP. Thus Canada was in the middle rank of the G-7 nations.

It is true that Canada relies more on the personal income tax than other countries. These taxes represented 13.9% of GDP in Canada versus an average of 9.6% for G-7 nations. This difference can be explained by the fact that the overall payroll tax burden in Canada is relatively low when compared to France, Germany, Japan and Italy.

"We recognize that it's not easy to implement large tax reductions at this point...but that there will be real tax reductions in the future as the fiscal situation stabilizes and improves."

Mr. John Hansen (Chief Economist and Assistant Managing Director, Vancouver Board of Trade)

Tax Revenues as a percentage of GDP, 1995

	Canada	United States	Japan	France	Germany	Italy	United Kingdom
Personal Income Tax	13.9	10.1	6.1	6.2	10.7	10.8	9.7
Payroll Taxes	6.2	7	10.4	20.4	15.4	13.2	6.3
Corporate Income Tax	3	2.6	4.3	1.6	1.1	3.6	3.3
Sales and Excise Taxes	9.5	5	4.3	12.2	10.9	11.3	12.3
Property Taxes	3.9	3.1	3.3	2.3	1.1	2.3	3.7
Other	0.5		0.1	1.8			0.1
Total	**37.2**	**27.9**	**28.5**	**44.5**	**39.2**	**41.3**	**35.3**

Source: Revenue Statistics 1995-1996 of OECD Countries (Paris, OECD, 1997)

When compared to the United States, our most important trading partner, Canada's overall tax burden is high; Canadian personal, sales and excise, and property tax burdens are significantly higher, while corporate taxes are comparable and our payroll taxes are lower. On many occasions the Committee heard from witnesses that personal income taxes, especially for high income earners, are a significant deterrent to attracting and keeping highly-skilled executives and professionals. The high personal income tax burden was also raised as one of the variables that explained why entrepreneurs and executives are tempted to move to the United States, as well as the brain drain that lures some Canadian scientists, computer experts and other highly paid professionals to other jurisdictions.

The Committee recognizes that increasing international competition resulting from trade liberalization (e.g. NAFTA) and the rapid growth in low-wage countries may increase pressure to reform our tax system. Income tax rates in the United States will remain low and proposed reductions to capital gains taxation could put renewed pressure on Canada to follow suit.

"We must ensure that our tax system is competitive when it comes to attracting and retaining investment. If it isn't competitive, the companies won't come. Today companies can locate their operations any place around the world."

Mr. Stephen Van Houten (President, Alliance of Manufacturers and Exporters' Association)

The Committee cannot, however, recommend extensive personal income tax cuts at this time. As the fiscal dividend increases and as the federal fiscal position solidifies, the Committee believes the government should first consider reducing personal income taxes for low to moderate income families.

"In our view the EI issue is really secondary to the personal income tax issue. The real benefits to Canadians, broadly, will be through a reduction in personal income tax."

Mr. Thomas d'Aquino (President and CEO, Business Council on National Issues)

Patience is a virtue. By waiting a little bit longer, we will be able to offer larger tax cuts down the road. In other words, resisting the temptation to cut taxes now can be seen as an investment in bigger tax cuts later, as well as greater room to manoeuvre on the part of the government. The Committee shares the view of many witnesses who argued that the government should significantly reduce the overall tax burden of Canadians only when we will be able to afford it.

"We're not advocating a tax break prematurely. We're advocating it in terms of a balanced budget situation..."

Mr. Walter Robinson (Federal Director, Canadian Taxpayers Federation)

RECOMMENDATION

- **The Committee is opposed to across-the-board tax cuts for the time being. It recommends that such cuts, both at the personal and corporate level, be considered only when circumstances allow, with personal income tax cuts taking priority over corporate tax cuts.**

"Tax cuts must not be across the board."

Mr. Dave Neal (Fredericton Chamber of Commerce)

Before significantly reducing the overall tax burden, we must reinvest in society and direct our investment toward those who are the most vulnerable. The most responsible course is to bring in targeted tax relief where the need is greatest. Those Canadians who have suffered the most over the past 4 years need our help. The government has already taken a number of important tax initiatives. The 1997 budget provides for almost $2 billion in selective tax cuts over three years. The main beneficiaries will be low-income families, charities, the disabled, students, workers and parents saving for their children's future education. As the fiscal dividend grows, the government will be able to introduce additional targeted tax measures.

"A fairly strong consensus that the people of Alberta in general don't want to see tax cuts."

Mr. Jim Selby (Research Director, Alberta Federation of Labour)

"I congratulate Canadians for the pain they put up with to get the deficit where it is... I think Canadians have really done the suffering. There may be some equity things we need to address."

Ms. Maureen Farrow (Loewen, Ondaatje, McCutcheon Ltd.)

RECOMMENDATION

- **The Committee recommends that the government introduce new targeted tax measures to help those in greatest need.**

"We stand by our call for a tax cut, that we agree that a broadly-based cut can wait until a surplus is firmly established. What we need now is a targeted tax cut ... for low income Canadians."

Mr. Don Goodison (Certified General Accountants' Association of Canada; Partner, Kemp Harvey Goodison, Certified General Accountants)

1. Taxes, Inflation and Modest Income Families

1.1 Indexation

As a result of persistent high inflation, the 1973 federal budget introduced inflation indexation into the personal income tax system. The thresholds for the various income tax brackets as well as the value of exemptions and deductions were to change automatically in response to inflation. The same indexation rules came to be applied to a variety of transfer programs as well.

The 1985 budget modified the indexation rule to take into account only inflation in excess of 3% per year. Certain social transfers were also made subject to this modified indexation system. This "CPI minus 3" rule continues to apply today.

"We should recognize that taxes are still being increased on an annual basis. I'm sure that we in this room are all aware of the fact that the tax system is not indexed; the credits for children, the child tax benefit, is not fully indexed to inflation; the GST credit, which protects low-income families from the regressive GST tax, is not indexed to inflation; the disability credit is not indexed to inflation; and all the income tax brackets are not indexed to inflation."

Mr. Richard Shillington (Research Associate, Canadian Council for International Cooperation)

Since the federal tax system has been subject to partial indexation for over a decade, there has been a dramatic impact on taxes and social transfers. The Committee estimates that as of 1995, partial indexation added over 840,000 low-income families to the income tax rolls.

A tax system not indexed against inflation has three notable effects, all of which work to increase government revenues: it increases the tax base, it increases the average rate of tax that is applied to the tax base and it raises the marginal tax rate that individuals face with respect to employment and investment income.

The first effect of de-indexation is to cause taxable income to grow at a faster pace than total income. This occurs because exemptions and credits, such as the basic personal exemption and the spousal exemption, decline in real value. As a consequence, households become subject to income tax at lower levels of real income. Low-income families, whose income merely keeps pace with inflation, will eventually be subject to income tax, solely because of inflation and thus will suffer a decline in their standards

of living. Those who were already paying taxes will see a larger proportion of their total income subject to tax because of the reduced real value of these exemptions.

"The failure to index personal income tax at inflation rates less than 3% has been a major source of revenue. I think that's been barely tolerable,... but because I attach a very high value to an honest and transparent tax system, it's not a measure I feel very comfortable with."

Mr. David Laidler (Department of Economics, University of Western Ontario)

With de-indexation, the nominal values of the tax bracket thresholds remain constant, while declining in real terms. This is known as bracket creep and is a feature of a progressive tax system. It leads to two other effects. It increases the average rate of tax that is applied to the taxable income base. It also increases the marginal tax rate that applies to workers incomes and investors returns. This last effect does not apply to those in the highest tax bracket.

We believe that some of the negative effects of the current system should be offset and hence we make the following recommendations.

RECOMMENDATIONS

- **The federal government should increase the basic personal non-refundable tax credits amount, the spousal amount and the equivalent-to-spousal amount for the 1998 taxation year.**
- **In addition, we go a step further and recommend that the government re-introduce indexation when the fiscal situation permits.**

To increase both the basic personal exemption and the married/equivalent exemption by $100 would cost the government about $300 million.

1.2 Surtax

The previous government not only modified indexation of the personal income tax, it also introduced a temporary surtax in order to finance its own fiscal restraint measures. This surtax was originally a high income surtax but it eventually comprised two parts, a high-income surtax of 5% and a general surtax of 3%. Both are applied not to income, but to basic federal tax.

As with the modified indexation system, these surtaxes represent an aberration of the tax system as it was intended. The marginal tax rates, including the lowest one, are higher than they were designed to be.

The Committee believes that these taxes distort the structure of the personal income tax from what was intended. Hence we believe they should be removed. Full removal would cost about

$2.5 billion. In the interim, the government should gradually phase out the surtaxes, starting with the initial general tax so as to again concentrate the benefits on modest and middle-income taxpayers. A one percentage point reduction in the general surtax would cost the government about $660 million.

RECOMMENDATIONS

- **The Committee recommends that the government announce a schedule for removing the temporary surtaxes.**
- **The Committee recommends that the 3% surtax be reduced for 1998.**

2. *Employment Insurance*

The recently announced 20¢ EI premium reduction will save employers and employees $1.4 billion each year.

Employment Insurance is the only payroll tax at the federal level and it constitutes government revenue. The federal government and the provinces also jointly impose a mandatory Canada Pension Plan contribution on employees and employers. Provincial governments impose their own set of payroll taxes to finance health services, welfare and programs to deal with high unemployment, for example.

The general consensus among witnesses was that the changes to the CPP were necessary and welcome. However, many witnesses argued that the increase in CPP premiums should be balanced by reduced EI premiums. They first argue that high EI premiums are silent killers of jobs. Second, they believe the large surplus in the Employment Insurance Account is not justified.

2.1 Employment Insurance Premiums

"I think it's simply wrong to argue that EI contributions are a job killer. I believe there is no evidence for that across the board."

Mr. David Laidler (Department of Economics, University of Western Ontario)

There is very little statistical evidence that high EI premiums significantly discourage employers from hiring new workers. What the evidence shows is that in the long run, payroll taxes are largely, if not totally, shifted to employees and consumers. Hence, the long-term employment effect is not much different from corporate taxes or consumption taxes. It is in the short run, however, that increasing EI premiums may have the reverse effect, since they increase the costs of labour by the full amount of the employer's contribution. As a result, employers may choose to reduce

employment to cut costs. It is for this reason that this government has substantially reduced EI premiums since 1993 and has insured that rates will not rise during any future period of higher unemployment.

- The three-year statutory average formula established in 1971 would have required the employee premium to be set at $3.30 per $100 of insurable earnings for 1995. Instead, the Minister of Finance set it at $3.00. The overall benefit to employees and employers was $1.9 billion.

- The rate for 1996 was reduced to $2.95, a further benefit of $350 million.

- The rate for 1997 was reduced to $2.90, a benefit of $350 million.

- Maximum insurable earnings were reduced from $875 to $750 a week, a benefit of $900 million

- Premium relief of $5,000 was announced in December 1995 for businesses that paid less than $30,000 in employer premiums, a benefit of $150 million over two years.

- For 1997 and 1998, the government will provide businesses that pay less than $60,000 in EI premiums with an enhanced refund of up to $10,000 based on the difference between premiums payments in those two years and payments in 1996. The overall benefit of this is estimated at $315 million.

In total, this government has already cut EI premiums by $4 billion. This does not mean that the EI premium rate should not be further reduced. There is no doubt that it will come down over time.

Nonetheless, some witnesses recommended that the EI premiums be reduced from $2.90 to $2.00 per $100 of insurable earning. Not only would this cost the government almost $6.3 billion in lost revenues, it would also be below the actuarial break-even rate. In addition, any significant reduction in EI premiums at this time would put our extraordinary budgetary achievements at risk. Unless the government increases other taxes or further reduces program spending, the government cannot

"The EI premium rate, it is extremely expensive to offset the CPP increases and it may not be feasible."

Mr. Rick Eggleton (Deputy Chief Economist, Bank of Montreal)

"With respect to the EI ... it is expensive, and we should only do it when we can do it. ...and if we reduced it (the surplus in the EI fund) sharply we'd have a deficit again."

Mr. Josh Mendelsohn (Senior Vice-President and Chief Economist, Canadian Imperial Bank of Commerce)

reduce EI premiums by a large amount without having a negative impact on the overall budget. A significant EI premium rate reduction would likely eliminate any chance of balancing next year's budget. In addition, this Committee believes that the deterioration of Canada's fiscal health would be more damaging than the maintenance of EI premiums at current rates. If payroll taxes are silent killers of jobs, so is a deteriorating fiscal situation. The successful fiscal measures have paid off in lower interest rates and in creating more jobs for Canadians. This is why, as a responsible Committee, we cannot recommend costly decreases in EI premiums.

RECOMMENDATIONS

- **As this report was in its final stages of preparation, the Minister of Finance announced that EI premiums for 1998 would be $2.70 per $100 of insurable earnings, 20 cents below the 1997 rate. This measure will result in a $1.4 billion saving for employers and employees.**
- **We support this initiative completely. It is in accord with what we heard from witnesses and with our own analysis of the situation. The premiums should be further reduced when the fiscal situation permits.**

A variety of witnesses, most notably the Canadian Federation of Independent Business, expressed their satisfaction with the New Hires program and their wish to see it continue.

2.2 Surplus in the Employment Insurance Account

The rationale for the size the accumulated surplus in the EI account is that the government wishes to ensure that payroll taxes are not increased during recessionary periods. Many of us remember when the previous government was forced to increase premium rates just as the economy was contracting. For example, in 1989, UI premiums went from $2.35 to $1.95 while from 1990 to 1994 they were gradually increased from $2.25 to $3.07, creating high payroll costs just when they were least opportune. In 1993, the deficit in the EI account was almost $6 billion.

The current government decided that the perverse cyclical pattern of EI premiums should be a thing of the past. Hence, in 1995, it announced that a sustainable surplus would be

accumulated to mitigate employment insurance premium rate increases during periods of slow economic growth. Because of this cushion, EI premiums will not have to be increased during the next recession, precisely when jobs are most scarce and businesses are least able to bear the added cost.

In 1993, the deficit in the EI account was almost $6 billion.

The amount of reserves needed to ensure relative premium rate stability is not some fixed amount. The 1996-97 surplus in the EI account was less than $6.5 billion. Many witnesses argued that this amount is more than sufficient to cover any future liability in the premium rate. Hence they asked that the Committee recommend a significant reduction in EI premiums. On the other hand, the chief actuary believes that a $15 billion accumulated surplus is sufficient to meet the government's goal.

The Committee fully endorses the concept of a prudent surplus in the EI account. Thus we make the following recommendation.

RECOMMENDATION

- **The Committee recommends that the federal government take the measures necessary to ensure that EI premiums not be increased during an economic downturn.**

3. *The Retirement Income System*

3.1 The Three Pillars

Pillar 1 (Old Age Security (OAS) and Guaranteed Income Supplement (GIS)) provides a minimum level of retirement income. The government will replace the OAS and GIS in 2001 with a new Seniors Benefit. Benefits to low-income Canadians will be increased, while assistance to high-income earners will be considerably reduced. The government should soon introduce legislation enacting the proposed changes.

A 9.9% contribution rate ensures that the CPP remains affordable for Canadians now and in the future.

Pillar 2 (CPP/QPP) provides an employment-based universal pension. Important changes to the Canada Pension Plan were recently announced by the federal government and seven provincial governments, in their role as joint stewards of the Plan. Changing demographics (low birth and death rates), lower

productivity growth, enriched benefits and an increasing number of Canadians claiming disability benefits have increased the CPP's costs over the years. If federal and provincial governments had not acted promptly, premiums would have risen to 14.2% of contributory earnings in 2030. They were already set to slowly reach 10.1% in 2016. The chief actuary concluded that the fund would have been completely exhausted by 2015.

"Canadians should be encouraged to take increased responsibility for their economic security at retirement through individual and corporate retirement plans."

Ms. Gretchen Van Riesen (Past President, Association of Canadian Pension Management)

In order for the CPP to be sustainable and fairer to younger generations, governments agreed to speed up the gradual contribution rate increases. This results in higher near-term premiums but lower future premiums, a steady-state rate of 9.9% in 2003, instead of a steady-state rate of 14.2% in 2030.

To have further delayed the necessary changes to the CPP, as was done in the past, would have been totally unfair to our children and grandchildren. The intergenerational inequity of inaction would have been unforgiveable. Younger generations would have eventually faced an unbearable contribution rate to finance our retirement years. These proposed changes move the CPP from pay-as-you-go financing to fuller funding: the reserve fund will grow in value from about two years of benefits to about four to five years of benefits. This fund will be prudently invested in a diversified portfolio of securities at arm's length from governments, in order to earn higher returns.

The general consensus among witnesses was that the changes to the CPP were necessary and welcome.

Pillar 3 (RRSP, DPSP, RPP) provides tax-deferral incentives for employment-based pensions or individual retirement savings accounts. Important tax changes were enacted in 1990. Among other things, the modification resulted in a more equitable tax treatment for those who had employer-sponsored pension plans and those who did not. But, because of budgetary constraints, the government delayed the speed at which the contribution limit increased. Under the original proposal the limit was supposed to reach $15,500 by 1994.

The 1996 budget once again delayed increases in the RRSP and DPSP limits for a number of years. Under the original schedule, RPP and RRSP limits were supposed to reach $14,500 in 1997 and

1998 respectively. The budget froze the contribution limit at $13,500 until 2002 for RPPs and 2003 for RRSPs. Under the new schedule, the RRSP limit should increase to $14,500 in 2004 and $15,500 in 2005.

The Committee believes that the government should reconsider the contribution limits under the schedule announced in 1996.

RECOMMENDATION

- **The Committee recommends that the schedule of contribution limits set out in the 1996 budget be revised so as to allow contributions to increase before 2002.**

3.2 Enhancing Rates of Return: The 20% Foreign Property Rule

"... we continue to believe that the 20% foreign property rule should be eliminated to help Canadians create additional wealth and to obtain optimal diversification of their retirement assets."

Ms. Gretchen Van Riesen (Past President, Association of Canadian Pension Management)

Canada has, since 1994, had a 20% Foreign Property Rule limiting the amount of foreign investments that may be held in tax assisted pension and retirement savings plans. The limit was increased gradually from the 10% limit that applied before 1990. A number of witnesses argued that this restrictive 20% limit is detrimental because it limits the potential return that could be earned in a more diversified portfolio and increases the risk of the retirement portfolio.

Even though the Canadian equities market accounts for less than 2.5% of global stock market capitalization, 80% of Canadians' retirement savings must be invested here. This severely limits our ability to diversify globally and across economic sectors — it must be remembered that Canada's economy is still relatively resource-oriented. It is precisely because of the relatively small size of the Canadian capital market that an appropriate degree of diversification requires a relatively large foreign content. Sophisticated investors can use derivatives to effectively increase their share of exposure to foreign assets beyond 20%, without violating the income tax regulation. Some mutual funds are now also offering this ability.

The Committee believes that limiting diversification increases risk and can reduce the overall return. The Investment Funds Institute of Canada recently commissioned a study on the impact of

The Canadian Funds Institute of Canada has shown that an RRSP with 30% foreign content would be $32,000 larger at retirement for an average investor than it would be under current rules.

the foreign property rule on investor returns. The study found that a 30% foreign content limit over the last 25 years would have allowed Canadian investors to earn up to 1.6% more per year on their retirement savings portfolios. The cumulative impact of this is enormous; for an average investor it means the loss of $32,000 in capital at retirement. Thus the existing rule merely makes some Canadian seniors poorer than they would otherwise be.

The 20% rule only affects savings in tax-assisted retirement vehicles such as RRSPs, RPPs, and the CPP investment fund. Thus it penalizes the returns of those whose savings are mainly in these instruments. Taxpayers who hold most of their savings outside of tax-assisted savings plans are less affected by the 20% rule. They can achieve maximum diversification to protect against risk and enhance their rates of return.

RECOMMENDATION

- **The Committee recommends that the 20% Foreign Property Rule be increased in 2% increments to 30% over a five-year period. This diversification will allow Canadians to achieve higher returns on their retirement savings and reduce their exposure to risk, which will benefit all Canadians when they retire.**

4. The Tax Treatment of Business

4.1 Variation in Effective Tax Rates

In the mid-1980s, the federal government broadened the corporate tax base while lowering the rates of tax applied to that base. Despite this policy, the average combined federal and provincial corporate tax rates is still 43% and Canada's corporate tax burden is heavier than that which applies in our most important trading partners.

The combined federal and provincial corporate tax rate has been reduced from 51.6% in 1987 to 44.6% in 1996, and from 24.9% to 21.1% for small businesses.

When compared to other industrialized nations, the corporate tax burden as a percentage of GDP is significant (see on page 56). The marginal effective tax rate on investment that a Canadian manufacturing company faces (25.5%) is high when compared to countries such as the United States (21.5%), the United Kingdom (20.2%) and Mexico (16.5%). It is low when compared to Germany (27.5%) and Japan (32%). Similar results prevail for the service

industry, but the differential is generally larger (Canada 32.2%, United States 19.9%, United Kingdom 19%, Mexico 17.7%, Germany 33.1%, Japan 33.9%).

In addition to these discrepancies between countries, there is considerable inequality between the tax treatment of various sectors. For example, the effective corporate income tax rate for non-manufacturing businesses (communications, transportation, utilities, trades and construction) is high in comparison to those of the manufacturing sector, oil and gas sector and the mining industry. Generous write-offs for locating, acquiring and exploiting resource properties explain why the resource industry faces a much lower tax burden.

Testimony heard by the Committee confirms these observations. For example, the Canadian railways industry referred to the fiscal imbalance between Canada and the United States. They argue that Canada's major railways pay approximately 53% more in fuel, sales and property taxes than U.S railroads. More specifically, Canada's railways have to pay 4 cents a litre in excise fuel tax to the federal government while American railroads pay only 2.2 cents. In addition, railway tax depreciation rates in Canada are less favourable than in the U.S. The railway industry also argues that it faces a higher tax burden as a percentage of revenues when compared to other modes of transportation operating in Canada such as air or the motor carrier industry. The industry maintains that a proper fiscal environment would create more jobs and wealth in Canada.

Capital is highly mobile from industry to industry and from one nation to another. Large discrepancies between corporate tax rates, sectorally or internationally, will promote perverse capital flows and an inefficient allocation of capital between sectors.

RECOMMENDATION

- **The Committee recommends that the government review the inter-sectoral variation in effective tax rates and remove any unwarranted variations. We believe, however, that any changes designed to equalize the tax burden should be revenue neutral or relieving.**

4.2 Small Business Deduction

Corporations that are Canadian-controlled private corporations are eligible for a small business tax rate reduction. This preferential tax rate also known as the small business deduction (SBD), lowers the basic federal tax rate on the first $200,000 of active business income by 16 percentage points — from 28% to 12%. Hence the small business deduction cannot exceed $32,000.

"We think small business should be targeted for corporate tax relief. Increase the small business deduction threshold from $200,000 to $300,000. It needs to reflect the roughly 40% inflation since it was set in 1984."

Mr. Dean Wilson (President, Automotive Industries Association of Canada)

The SBD was put in place in 1984 to lower the federal corporate tax rate applying to Canadian small businesses. Since the inception of this tax measure, the ceiling has not been increased.

Many witnesses representing business organizations argued that it was now time to increase that threshold. It is true that the SBD has not kept pace with inflation or the growth in the size of small businesses. By increasing the SBD, small businesses could have access to a larger pool of low-cost capital, i.e. that generated by profits. However, increasing the threshold could have serious revenue implications for the government. Under the present $200,000 threshold, the lower tax rate for small businesses already costs the government $2.62 billion in 1997. It is estimated that these costs will likely increase to almost $2.78 billion by 1999. It is also estimated that increasing the threshold from $200,000 to $300,000, as recommended by some small business representatives, would cost the government almost $1 billion annually in additional lost revenues.

RECOMMENDATION

- **The Committee recommends that the government carefully review the small-business deduction and the appropriateness of the $200,000 threshold level.**

5. Supplementary Health and Dental Plans

One issue that has frequently arisen since the Finance Committee embarked on these pre-budget consultations four years ago is the tax treatment of supplementary health and dental plans. The possible taxation in the hands of employees of employer contributions to group health and dental plans was feared by many. The rationale for taxing these benefits would have been the inequity

between those who had supplementary health and dental protection and those who did not and could not benefit from the favourable tax treatment.

Two years ago, it was estimated that 3.6 million Canadians were not covered by supplementary private or public health and dental plans: 2 million Canadians to whom employers could have offered coverage under group plans but did not, one million unincorporated self-employed entrepreneurs and their dependents whose health and dental coverage is not a deductible business expense, and 600,000 Canadians who are not employed, not eligible for special government plans and not covered as dependents under public or private plans. The 3.6 million figures is now lower because of the introduction of a universal drug insurance program in Quebec in 1997.

Instead of recommending the taxation of benefits, the Committee challenged the insurance industry in the past to find ways to increase the number of Canadians for whom supplementary health and dental plans are available. In response to this challenge the Canadian Life and Health Insurance Association and the Canadian Federation of Independent Business are now working together to assess the current degree of coverage, why coverage is less common among small business and what initiatives should be considered to increase coverage. The Committee is very thankful to the insurance industry for its efforts in this important area. They could affect not only the health of Canadians but also protect their economic well-being.

Making sure that all Canadians have access to supplementary health and dental plans is believed to be more important and fairer than taxing benefits. This is why the Committee is once again recommending the following important changes in regard to the tax treatment of supplementary health and dental plans.

RECOMMENDATION

- **The Committee recommends that unincorporated businesses be allowed to deduct the cost of supplementary health and dental coverage from income, to put them on the same footing as the incorporated self-employed.**

This measure should reduce substantially the number of unincorporated self-employed entrepreneurs who are not covered by supplementary insurance plans. A problem still exists for employees whose employers choose not to offer a plan. The Committee feels that these individuals and families should have the same options as the self-employed, and hence make the following recommendation.

RECOMMENDATION

- **The Committee further recommends that employees whose employers do not provide a supplementary health and dental plan be able to deduct, from income, the costs of acquiring adequate private coverage.**

CHAPTER 3

A. ADDITIONAL MEASURES

The Committee heard a number of witnesses' concerns relating to specific industries or economic activity. The Committee recommends that officials carefully examine the following issues and evaluate their merit.

1. *Enhanced Charitable Tax Treatment*

As it did in the past, the Committee continues to recognize the important role the charitable sector plays in our society. It is an important player that can provide essential goods and services to all Canadians. By doing so, it can build social capital, tighten the social fabric of this country, maintain and improve the quality of life in all our communities, and help those in need. The aid provided by the 80,000 charitable organizations is particularly essential in the context of recent fiscal restraint.

In the face of federal, provincial and municipal cutbacks, the charitable and voluntary sector faced great challenges. As governments reassessed their spending priorities, the charitable and voluntary sector was forced to absorb part of the load. Thousands of Canadians have been forced to rely on their services, putting extra pressure on the tens of thousands of volunteers working in the field. Voluntary organizations are now faced with heavier caseload.

The Finance Committee has always taken a keen interest in this sector. This Committee has always tried to find ways to encourage charitable giving. Governments, individuals and corporations have been able, thanks to more effective tax incentives, to form important partnerships in this regard. In its pre-budget consultation reports for 1995, 1996 and 1997, the Committee carefully examined the tax treatment of charitable donations. In the pre-budget consultation reports for 1996 and 1997, the Committee recommended specific measures relative to the tax treatment of charities (for example, increasing the limit on donations from 20% to 50% of net income or exempting from capital gains taxation gifts of appreciated capital property).

"It's in large measure ... to the efforts of this committee that the government has adapted initiatives in the 1996 and 1997 budgets to encourage charitable giving by all Canadians. These initiatives certainly are welcomed and appreciated by the charitable community and by the CALU members."

Mr. William J. Strain, F.C.A. (Chair, Taxation, Conference for Advanced Life Underwriters)

The government always endorsed in the following budget some, if not all, of the Committee's recommendations. For example, in the 1996 budget, the amount of donations eligible for the tax credit was increased from 20% to 50% of net income; the limit on donations on the year of death and donations carried back to the preceding year was raised from 20% to 100%. In addition, to eliminate the potential cash flow impacts arising from the donation of appreciated capital property, the general limit of 50% was further increased by half the amount of taxable capital gains resulting from the donation of capital property.

In the February 1997 budget, the government announced a new set of measures to foster charitable giving:

- the reduction of the inclusion rate on capital gains arising from the donation of publicly-listed securities from 75% to 37.5%;
- the increase to 75% of the income limit for donations;
- a level playing field between charitable donations and donations to the Crown and Crown foundations, with a new standard limit of 75% of net income;
- new rules for the valuation of easements of ecologically sensitive lands; and,
- increased resources for Revenue Canada to enhance information and compliance.

The 1997 tax measures will provide $95 million worth of resources annually in additional federal tax assistance to encourage charitable donations. Many of these measures originated in the pre-budget consultation hearings.

"We appreciate what has been done for the last three years and don't stop. Don't give up."

Mr. David Armour (President, United Way of Canada)

It is obvious that the Committee has had a positive impact on the tax treatment of charitable giving. Many witnesses appearing this year expressed their appreciation for the number of significant changes that have appeared in the last three budgets.

However, a significant number of witnesses raised the fact that the measures contained in past budgets require further action.

1.1 Resolution 21

Known as Resolution 21, this measure was announced in the last budget and subsequently included in the draft legislation amending the *Income Tax Act* issued on July 31. It will restrict gifts of shares and debt instruments issued by private corporations.

The last budget proposed to reduce the income inclusion rate on capital gains arising from certain donations, from 75% to 37.5%. Donations eligible for this enhanced tax treatment are securities, such as shares, bonds, bills, warrants and futures that are listed on prescribed stock exchanges only. It is believed that this measure will facilitate the transfer of appreciated capital property to charities to help them respond to the needs of Canadians. However, entrepreneurs whose wealth is held in the shares of privately-owned businesses will not get any tax credit for donations of those shares until the recipient (i.e. the charitable organization) sells them. Hence, Canadians who give such securities to support charitable organizations could end up facing a substantial tax liability (i.e. capital gains tax plus denied tax relief in respect of the gift) if the recipient does not dispose of the gift within five years.

This measure, denying all tax relief for charitable donations of securities of private corporations, is perceived by many witnesses as inequitable. They claim there will now be a two-tiered system. The practical implication of Resolution 21 is that it will prevent the donation of securities of private companies. As one witness argued, this measure will substantially reduce charitable donations of private companies' securities.

The Department of Finance is reluctant to allow tax relief for charitable donations of securities of private corporations because of perceived abuses in assessing the fair market value of those gifts. The Department believes it is necessary to postpone (up to 5 years) the recognition of such a gift until the charity disposes of it to ensure that the securities are appropriately valued. The charitable sector argued that the Department was being overly cautious. The sector argues that to deny charities the ability to hold securities of a

private corporation with which the donor does not deal at arm's length, regardless of the quality of the investment, is an overreaction to the risk of abuse.

In response, the Voluntary Sector Roundtable, the Canadian Association of Gift Planners, the Conference for Advanced Life Underwriting, the Canadian Institute of Chartered Business Valuators and various other organizations have proposed to the Department of Finance a four-point valuation process for charitable gifts of private companies' securities. They believe that the valuation process will provide adequate safeguards and will ensure that tax credits and deductions are granted only in respect of real value that is irrevocably transferred to a charity.

The Committee believes that the new rules could hamper the ability of charitable organizations to raise capital and to establish endowment funds that are desperately needed to sustain long-term social and cultural programs to the benefit of all Canadians.

RECOMMENDATION

- **The Committee recommends that the government examine Resolution 21 and develop appropriate measures to prevent abuse without introducing disincentives to charitable giving.**

1.2 Sunset Clause

The February 1997 budget established a sunset clause for the reduction of the capital gains tax on gifts of publicly-traded securities. The reduced inclusion rate for capital gains will remain in effect until 2002, at which point the measure will be re-evaluated. After five years the plan will be terminated if it has not been effective in both increasing donations and distributing the additional donations fairly among charities.

RECOMMENDATION

- **The Committee recommends that the government clarify how the Sunset clause will be implemented, who will be responsible for determining the distributional aspect of this measure and list the criteria that will be used.**

1.3 Stretch Proposal

For a third year, some witnesses suggested the stretch proposal as a means of enhancing modest gifts to charities. This stretch proposal would provide a larger tax credit (40%) on donations that exceed the maximum a taxpayer and spouse have given in any prior year. Revenue Canada would have to advise taxpayers annually of their threshold for this credit on their Notice of Assessment.

"The council respectfully recommends that the federal government consider ways and means including building on the principles set out in last year's stretch proposal, to give those with more modest means more reason to give."

Ms. Audrey Vandewater (Executive Committee Member, Council for Health Research in Canada)

In the past, the Committee found this proposal appealing because it would provide an additional tax benefit only to those donors who increase their donations above previous amounts and because it would be advantageous to taxpayers of all income levels. In addition, it provided an incentive for taxpayers to contribute to charities for the first time. Last year the Committee recommended that a stretch proposal be considered for implementation. The government rejected this approach because it could create opportunities for taxpayers to maximize their credits by rearranging their donations (e.g. delaying donations over a certain number of years to make one large donation). In addition, this proposal would significantly increase the complexity of the tax system.

Typically, the combined federal-provincial tax regime brings tax assistance to 52% of the value of the donation. Hence, there is a 50/50 partnership between donors and governments. With the 40% tax credit, the combined federal-provincial assistance would reach 70% for excess contributions. The Committee also recognizes that the stretch proposals could have adverse behavioural consequences.

RECOMMENDATION

- **The Committee recommends that the Department of Finance and the Voluntary Sector Roundtable work together to develop a feasible stretch proposal that avoids the pitfalls mentioned above.**

B. SHIPPING AND HANDLING FOR INDEPENDENT SALES CONTRACTORS

In their testimony, the Direct Sellers Association argued that the current rules under which a direct seller must collect GST on the shipping and handling charges made to their independent sales contractors (who are usually not registered vendors) when they purchase products and sales aids are unfair. This is because GST on these costs would normally be recoverable through the Input Tax Credit mechanism were they incurred by a commerce business operating outside the direct sellers mechanisms.

RECOMMENDATION

- **The Committee recommends that the shipping and handling charges from a direct selling company to its independent sales contractors be relieved of GST.**

C. EXCISE TAX ON JEWELLERY

Since 1918, the federal government has been imposing a 10% excise tax on jewellery (valued at more than $3) and on watches and clocks (valued at more than $50). In 1996-97, this tax generated revenues totalling $55.9 million.

According to an Ernst and Young study, between 30 and 60% of the transactions are illegal trades

Once again, the jewellery industry testified before the Finance Committee. They argued that the high tax burden (excise tax, GST, provincial sales taxes) has driven the industry underground. Between 30 and 60% of the transactions are illegal trades. In addition, the industry claims that the tax is not a luxury tax (each household spends only $130 on jewellery per annum); it is unfair (the jewellery industry is the only one that faces a 10% manufacturers sales tax); it hurts small business (it increases the cost of financing inventories and the paper burden is expensive), it inhibits job creation and it generates little net revenues (because of the high cost of enforcement).

"We are not asking the committee to give the jewellery industry a concession. Repealing the excise tax would not provide our industry with special treatment. Instead, repeal of the tax would level the playing field and open the industry to growth and job creation."

Mr. Jonathan Birks (Chairman, Government Relations Committee, Canadian Jewellers Association)

The industry claims that the government would not lose revenue if the tax were repealed. An Ernst & Young study commissioned by the Department of Finance, however, concluded that repeal of the tax would not have a significant impact on

contraband activity and would therefore not generate sufficient GST and income taxes to offset the lost excise revenue. The Committee is nonetheless sympathetic to the jewellery industry.

- **The Committee recommends that the Department of Finance assess the appropriateness of an excise tax on jewellery.**

RECOMMENDATION

D. PHYSICIANS AND THE GST

The Committee heard from the Canadian Medical Association, which expressed serious concerns about the way in which the GST is applied to physician services. In the opinion of the CMA, the GST discriminates against physicians because, unlike other self-employed professionals, they are unable to claim input tax credits for business expenses and cannot recoup GST expenses through other charges.

According to the CMA, the GST is fundamentally unfair to physicians and is a deterrent in recruiting and retaining physicians in Canada. This issue merits consideration and further study.

E. PRIVATE WOODLOTS

Private woodlots are a vital part of the Canadian forest sector. They are typically small, usually 50 hectares or less. They are an important wildlife habitat. In addition, woodlots are a source of specialized products such as maple syrup, Christmas trees and firewood.

"The current lack of sustainable stewardship practices cannot continue without serious economic and environmental social impacts."

Hon. Alan R. Graham (Minister of Natural Resources and Energy, Province of New Brunswick)

The industry argues that the tax system operates as a disincentive to sustainability. The tax system encourages clearcutting. This is because woodlot owners who are not classed as farmers, or whose land base do not allow them to operate on a full-time basis are not permitted to deduct business losses against income that is derived from a source unrelated to the business. Farmers can deduct the cost of planting and maintaining a woodlot against income from other sources on an annual basis. Revenue Canada argues that investments in woodlot management do not appear to meet reasonable expectations of profit requirements. It

can take up between 40 to 60 years before revenues are generated and a profit is possible. Because of the irregular revenue flow, Revenue Canada considers that woodlot operators cannot be committed to a business. Furthermore, Revenue Canada fears that changing the tax regime of woodlot owners could create tax shelter for wealthy Canadians.

RECOMMENDATION

- **The Committee recommends that the government favour sustainable management practices in this important forestry sector by reviewing the tax treatment of woodlot operators.**

F. INCOME AVERAGING FOR ARTISTS

"To develop a knowledge-based economy, we believe that a nation has to nurture those writers, those people who are creating the intellectual property that's going to be the currency in the new information age."

Ms. Merilyn Simonds (Second Vice-President, Writer's Union of Canada)

The Committee has in the past recommended income averaging for occupations such as artists and writers whose income fluctuates. We were told by the Writers Union of Canada that authors typically receive all their income for four years of work in one year. Thus they are taxed at a marginal rate much higher than it should be. Once we recognize that less than 2% of writers receive Canada Council grants, we note that writers are penalized for being in a position that is already difficult.

The corporate income tax system allows income averaging through loss carry-overs. This is in recognition of the cyclical nature of profits. Other individuals also face such tax penalties due to uneven income patterns. For most, however, such cases are the exceptions rather than the rule.

RECOMMENDATION

- **The Committee recommends that the government consider the introduction of income averaging for those forms of income that fluctuate.**

G. THE CANADA TELEVISION AND CABLE PRODUCTION FUND

"Investing in the cultural sector means building a strong domestic base of creative expression and production."

Ms. Susan Annis (Director, Canadian Conference of the Arts)

The Canada Television and Cable Production Fund is a public-private partnership which provides about $200 million per year for the production of distinctively Canadian television productions, produced primarily for the domestic market. This fund

helped to finance over 300 productions this year, with total spending of about $600 million. The federal government currently contributes $100 million to the fund annually but this contribution is slated to decline to $50 million next year and be eliminated after that.

Canadian programming faces many obstacles when competing with the American juggernaut. Our television season tends to be shorter than the American one. Only 7% of available drama is Canadian. And Canadian households can today receive virtually everything the Americans produce.

"The Canadian television marketplace, particularly the English language part of that marketplace, is the most competitive on earth."

Mr. Peter Herrndorf (Interim Chair, Canada Television and Cable Production Fund)

Canadian culture is subject to enormous threats from the dominance of American culture. With technology's tearing down of cultural borders, regulating Canadian content is becoming less and less an effective cultural tool. The only effective alternative is the direct subsidization of cultural productions.

RECOMMENDATION

- **The Committee recommends that the federal government give serious consideration to maintaining funding for the CTCPF.**

H. COST RECOVERY IN THE AGRICULTURAL SECTOR

Once again this year, organizations representing the agriculture and agri-food sector testified before the Committee. As in previous years, they expressed concerns about the proliferation of user fees. Cost-recovery program initiatives such as the Pest Management Regulatory Agency (PMRA), the Marine Service Fee and the Food Inspection System can increase their production costs.

The agri-food industry claims that these charges are not based on sound public policy. The industry argues that only services that are a direct benefit to the producer should be paid by the producer. Services that are in the public interest should be shared by the public through government expenditures. They also argue that the imposition of fees such as inspection fees on producers makes them uncompetitive vis-à-vis the American producers and producers in other trading nations.

The Committee is still supportive of the government's effort for an effective user-pay system. This approach limits government expenditures by imposing the cost on those who benefit. Recent policy development should alleviate the industry's concerns in regard to user fees.

"The federal departments have very little acumen for accountability and management of cost-recovery initiatives, as evidenced by our industry's experience."

Mr. Charles D. Milne (Vice-President, Government Affairs, Crop Protection Institute)

In April 1997, the federal government announced a new policy on cost recovery, which is based on an approach that reconciles businesses' and consumers' concerns with government policy and its responsibilities to all taxpayers. The new policy should, among other objectives, promote a more efficient allocation of resources and an equitable approach to financing government programs by fairly charging those who benefit from the services rendered. This policy should guarantee the industry that cumulative impact assessments of user fees will be undertaken and monitored.

While individual ministers are responsible for implementing user charges, Treasury Board has committed itself to review the new policy within three years of its introduction.

RECOMMENDATION

- **The Committee recommends that the new Treasury Board cost recovery and charging policy be strictly implemented by all departments and agencies and that at no time should new user fees be charged without proper impact assessments, as required by the policy.**

I. APPRENTICES' TOOLS

Apprentices and technicians working in the automotive industry must purchase and maintain a set of tools in order to get and keep a job. Because of that condition of employment, auto mechanics must typically invest approximately $15,000 in tools — some may invest as much as $40,000. Furthermore, they must make annual replacement purchases of up to $1,000. Entry level apprentices must purchase a starter set of tools, valued at about $4,000 before they can get their first job. Over the three- to four-year period it takes to complete their apprenticeship, they will have invested about $4,000 to $5,000 each year to build up their tool box.

The Committee believes that all Canadian employees should be allowed to deduct from their income the cost of large mandatory employment expenses. Special provisions in the *Income Tax Act*

already apply to artists, chainsaw operators and musicians. To deny this tax treatment to apprentices and technicians in the automotive industry is not only unfair, it also imposes an impediment to employment, especially for the young who might choose to work as apprentices. Revising the tax treatment of such expenses would remove the impediment that exists under the present tax rules.

The Committee believes that allowing auto mechanics to deduct the cost of their tools would increase enrolment rate in apprenticeship programs and that it would reduce what the industry considers to be a severe shortage of skilled labour. Second, talented young Canadians would stop seeing a career in the automotive industry as something they cannot afford. Third, it would make the transition from school to the permanent workforce easier. This would reduce the high attrition rate in the industry.

RECOMMENDATION

- **The Committee recommends that the government provide targeted tax relief for all those who must bear large expenses as a condition of employment, such as is the case with mechanics' tools.**

The Committee believes that such a reform would promote the government's growth and jobs agenda.

J. MAJOR NATURAL CATASTROPHE

Many now predict that extreme weather will increase in frequency and severity in the future, causing large-scale damage and imposing high costs. Flood damage in the Saguenay last year and the Red River this year are the most recent examples of catastrophic weather events.

Once again this year, the insurance industry argued that Canada is ill prepared for major natural catastrophe such as an earthquake. Major urban centres in British Columbia and Quebec, as well as the national capital region, are in high risk seismic zones. The Insurance Bureau of Canada estimates that losses could well exceed $30 billion in each case.

The federal government has not budgeted for these potentially costly disasters. The government could be exposed to these losses directly through the cost of relief and damage payments, as well as indirectly via reduced tax revenues. This would threaten the fiscal position of the government and the prosperity of Canadians.

In addition, current taxation and accounting practices do not facilitate the creation of catastrophe reserves by the insurance industry.

The government introduced last summer a requirement that insurers must demonstrate to the regulator that they can measure and fund their earthquake exposure. This means that premiums will soon be set aside in order to pre-fund the ability to handle eventual losses.

RECOMMENDATION

- **The Committee is greatly encouraged by the establishment of earthquake reserves. The Committee recommends that the government continue working with the insurance industry to determine the tax treatment of earthquake reserves.**

A copy of the relevant Minutes of Proceedings (*Meeting no. 57)* is tabled.

Respectfully submitted,

Maurizio Bevilacqua

Maurizio Bevilacqua, MP
Chair

APPENDIX A
List of Witnesses

Organizations and Individuals	Date
Department of Finance The Honourable Paul Martin, P.C., M.P., Finance Minister	**Wednesday, October 15, 1997**
Individual Ralph Ottenbreit, Q.C., c/o Robertson, Stromberg	**Thursday, October 16, 1997**
Advanced Educational Council of B.C. Neal Nicholson, Treasurer	
B.C. & Yukon Territory Building and Construction Trades Council Tom Sigurdson Tony Tennessy	
B.C. Cancer Foundation Janice Loomer Margolis Ken Georgetti Phillip Legg, Research Director	
British Columbia Teachers' Federation Rick Beardsley, Assistant Director	
Business Council of B.C. Jock Finlayson, Vice-President	
Canadian Business and Professions for Accountability Association Patrick Wong, President William H. Lim, Vice-President	
Canadian Centre for Policy Alternatives Seith Klein Gideon Rosenbluth	
Canadian Federation of Students in Vancouver Brad Lavigne, National President	

Organizations and Individuals	Date
Canadian Mental Health Association Dr. John Hylton, Executive Director	**Thursday, October 16, 1997**
City of Regina Mayor Douglas Archer	
City of Vancouver Mayor Philip Owen	
College Institute Educators' Association of B.C. Ed Lavalle, President	
Confederation of University Faculty Associations of B.C. Tony Sheppard, President Robert Clift, Executive Director Bill Bruneau, Member	
Fédération des francophones de la Colombie-Britannique Diane Côté, President Yseult Friolet, Executive Director	
Frank Buck Agencies Frank Buck, President	
Fraser Institute Gordon Gibson Michael Walker, Director	
Greater Vancouver Gateway Council Rick Pearce, Treasurer	
Hospital Employees Union Fred Musin, President	
Immigrant Women's Society of Saskatchewan Jean Lara, Executive Director	
National Cancer Institute of Canada Connie Eaves, President	

Organizations and Individuals	Date
Political Response Group Lane Walker, Co-Director	**Thursday, October 16, 1997**
Private Career Training Association Gordon Mulligan, Delegate	
Regina & District Food Bank Stephen Reicher, Education Coordinator	
Rental Housing Council of B.C. Tex Enemark, Executive Director Robert Orr	
Roadbuilders and Heavy Construction Association of B.C. Anthony Toth, President	
Saskatchewan Action Committee on the Status of Women Mary Swedburg Erika Cancino Kripa Sekhar, Executive & Communication	
Saskatchewan Child Care Association Peter Morin, Chairperson	
Saskatchewan Construction Association Manley McLachlan, Executive Director	
Saskatchewan Council for International Cooperation Ginny Guiboche, President Laurie Latta	
Saskatchewan Motion Picture Association Elizabeth Barrell Ron Goetz, Past President	
Social Planning & Research Council of B.C. Barbara Grantham, President Eva Robinson, Executive Director Michael Goldberg, Research Director	

Organizations and Individuals	Date
Saskatchewan Wheat Pools Dan Schmeiser, Manager, Economic Analysis & Policy Development Marvin Schauf	**Thursday, October 16, 1997**
University of Regina Student Union Marjorie Brown, President	
Vancouver Board of Trade John Hansen, Chief Economist & Assistant Managing Director Chris Richardson, Director	
Vancouver Foundation Richard Mulcaster, President & CEO	
University of Regina Donald Wells, President	
Western Canadian Wilderness Committee Paul George, Founding Director	
Alberta Association for Young Children Cathy Barnhart Liz Simmons, Vice-President	**Friday, October 17, 1997**
Alberta Association of Registered Social Workers Lorna Downey, Vice-President	
Alberta Association of Registered Nurses Lorraine Way, President	
Alberta Council on Aging C. Neil Reimer	
Alberta Economic Growth Summit Michael Percy, Dean of Business, c/o University of Alberta	
Alberta Federation of Labour Jim Selby, Research Director	

Organizations and Individuals	Date
Alberta Legislative Assembly Pam Barrett, Member	**Friday, October 17, 1997**
Alberta Real Estate Board Les Phillips, President	
Alberta Roadbuilders and Heavy Construction Association Barry McPhalen, President	
Alberta Teachers Association Fran Savage, Past President	
Association canadienne-française de l'Alberta Georges Arès	
Brandon Chamber of Commerce Todd Lumbard, President	
Canadian Association of the Non-Employed Joan Johannson, Chair Robert Johannson	
Canadian Dehydrators Association Garry Benoit, Executive Director	
Canadian Federation of Students Kemlin Nembhard, Provincial Field Worker	
Choices, Coalition for Social Justice George Harris, Co-Chair	
CIBC Commercial Banking Centre Charlotte Robb, Vice-President	
Community Action on Poverty Jim Finlay, Chairperson	
Confederation of Alberta Faculty Associations Rick Szostak	
Crocus Investment Fund Sherman Kreiner, President & CEO	

Organizations and Individuals	Date
Crossroads Resource Group Kenneth Emberly, Spokesperson	**Friday, October 17, 1997**
Edmonton Arts Council Josh Keller, Executive Director Paul Moulton, President	
Edmonton Chamber of Commerce Martin Shalloum, General Manager	
Edmonton City Centre Church Corporation Martin Garber-Conrad, Executive Director	
Edmonton Food Bank Marjorie Bencz,	
Edmonton Social Planning Council Brian Betchel, Executive Director	
Health Sciences Association of Alberta Elisabeth Ballerman, President	
International Brotherhood of Boiler Makers John Rowe, Manager	
International Children's Services Kay Feehan, Past President	
Jacks Institute Evelyn Jacks, President	
Lévesque Securities David Schayes	
Library Association of Alberta Pilar Martinez, President	
Manitoba Action Committee on the Status of Women Pauline Riley, President	
Manitoba Cancer Treatment & Research Council Dr. Arnold Greenberg	

Organizations and Individuals	Date
Manitoba Chamber of Commerce Don Overall, Vice-President	**Friday, October 17, 1997**
Manitoba Federation of Labour Rob Hilliard, President	
Manitoba Federation of Union Retirees Albert Cerilli, President	
Manitoba Research Council Gary Glavin, Vice-President, Research, University of Manitoba	
National Foundation for Family Research and Education Mark Genvis, Executive Director	
Native Employment Services Association of Alberta Don Logan, Chief Executive Officer	
People in Equal Participation Inc. Theresa Ducharme, Chairperson	
Prairie Pools Inc. Gordon Pugh Marcel Van Dungen, Manager, Research & Information	
Premier's Council for Persons with Disabilities Gary MacPherson, Executive Director	
Quality of Life Commission Rev. Bruce Miller, Chairperson Midge Cuthill, Chair, Edmonton National Anti-Poverty Organization Regina Parker	
Seniors' Action and Liaison Team Con Duemler	
Social Justice Commission John Lynch, Director	

Organizations and Individuals	Date
Social Planning Department — Red Deer Colleen Jensen, Social Planning Manager	**Friday, October 17, 1997**
Social Planning Council of Winnipeg Wayne Helgason, Executive Director	
Société franco-manitobaine Daniel Boucher, President Léo Robert	
Thomas Sill Foundation Norman Fiske, President	
United Nurses of Alberta Heather Smith, President	
University of Alberta Joel H. Weiner, Associate Dean, Research Paul Boothe, Department of Economics Richard Plain, Health Care Economist	
Western Canadian Wheat Growers Association Larry Maguire, President	
Individuals Patrick Brady, *Entrepreneur* Jean-Claude Croft Hugh Rowe, Financial Advisor	**Monday, October 20, 1997**
Abbey Finestone Inc. Stanley Abbey, Broker	
Alliance of Manufacturers and Exporters of Quebec Raymond Bourque, President Manuel Dussault, Director of Research and Analysis	
Alliance Quebec Harold Chorney, Member of the Executive Committee Michael J. Hamelin, President Len MacDonald, Director of National Issues	

Organizations and Individuals	Date
Association de planification fiscale et financière Yvon Caron, President Renaud Lachance, Professor, *École des hautes études commerciales*	**Monday, October 20, 1997**
Association of Canadian Pension Management Malcolm Hamilton, Principal Gretchen Van Riesen, Past President	
Board of Trade of Metropolitan Toronto John Bech-Hansen, Deputy Director Don McIver	
Burlington Chamber of Commerce Scott McCammon, Executive Director	
Campaign 2000 Rosemarie Popham, Chair	
Canadian Association of Gift Planners Robert Kleinman, Government Relations	
Canadian Catholic Organization for Development and Peace Mike Flynn, Director General	
Canadian Association for Community Living Diane Richler, Executive Vice-President Cheryl Gulliver, Vice-President	
Canadian Association of Food Banks Sue Cox, Vice-Chair Julia Bass, Executive Director	
Canadian Association of Retired Persons Lillian Morgenthau, President	
Canadian Chamber of Commerce Joshua Mendelson, Chairman David Brown, Senior Policy Analyst	
Canadian Council for Refugees in Toronto Ali Gholipour Barbara Treviramus	

Organizations and Individuals	Date
Canadian Council of Christian Charities Frank Luellau	**Monday, October 20, 1997**
Canadian Federation of Students Wayne Poirier, Chairperson	
Canadian Real Estate Association Pierre Beauchamp, Chief Executive Officer	
Canadian Tax Foundation David Perry, Senior Research Associate	
Centrale de l'enseignement du Québec Pierre Beaulne, Economist	
Chamber of Commerce of Metropolitan Montreal Françoy Roberge, Director, Public Affairs & Research	
Chinese Business Association Yolanda Chan, President	
Cirano Claude Montmarquette, Director of Research & Professor of Economic Science, University of Montreal	
City of Toronto Dan Leckie, Toronto City Councillor	
Citizens for Public Justice Gerald Vandezande, National Public Affairs Director	
Clinical Research Institute of Montreal Rafick-Pierre Sékaly, Director, Laboratory & Immunology	
Confédération des Caisses populaires Desjardins Yves Morency, Government Relations Officer	
Confédération des syndicats nationaux (CSN) Pierre Paquette, Secretary General Peter Bakvis, Executive Assistant	

Organizations and Individuals	Date
Conseil du Patronat du Québec Denis Beauregard, President Jacques Garon, Research Director	**Monday, October 20, 1997**
Council for Health Research in Canada Helen Ghent, Director Emeritus, Samuel Lunenberg Research Institute Lou Siminovitch, Director Emeritus, Samuel Lunenberg Research Institute	
Development and Peace Mike Flynn, Assistant to General Management	
Eckler Partners Ltd. W. Paul McCrossan	
Ecumenical Coalition for Economic Justice Jim Marshall, Co-Chair	
Etobicoke Brighter Futures Coalition Daniel Bogue, Representative	
Etobicoke Social Development Council Bill Goursky, Executive Director	
Fédération des étudiants universitaires du Québec Benoît Latulippe, Socio-Political Research Coordinator	
Frontier College John Daniel O'Leary, President	
Growing Up Healthy Downtown Alison Kemper, Executive Director Karen Serwonka	
Halton Social Planning Council Michael Cushing, Member of the Board	
Kids First Cheryl Stewart, National Executive Member	

Organizations and Individuals	Date
Labour College of Canada Sidney Ingerman, Instructor	**Monday, October 20, 1997**
Let's Talk Science Bonnie Schmidt, Director	
Low Income Families Together Josephine Grey, Executive Director	
Markham Board of Trade Robert Kiefer, President	
Microtrek Development Mike Bon Zubin, President	
Midland-Walwyn Capital Inc. Mark Mullins, Senior Vice-President & Director	
Mohawk College Keith McIntyre, Past President	
Montreal Neurological Institute Tom Jevas, Associate Director, Planning and Administration John Robson, Associate Director, Scientific Affairs	
National Association of Tobacco and Confectionery Distributors Luc Dumulong, Executive Vice-President	
Older Women's Network Helen Riley, Chair	
Ontario Coalition for Better Child Care Networks Martha Friendly, Member	
Ontario Coalition of Senior Citizens' Organizations Hank Goldberg, Vice-President	
Ontario Hospital Association David MacKinnon, President & CEO	

Organizations and Individuals	Date
Princess Margaret Hospital Foundation Malcolm Burrows, Director, Gift Planning	**Monday, October 20, 1997**
Project Genesis Alice Herscovitch, Spokeswoman	
Quebec Chamber of Commerce Robert Demers, Associate, Consumer Taxes, c/o Sanson Bélair Deloitte & Touche & Member, Finance Committee Martin Comeau, Economist	
Regroupement des intervenantes et intervenants francophones en santé et en services sociaux de l'Ontario Diane Plante, President Claudia Lebeuf	
Stafford Technology Institute Steven Rieck, President	
Toronto Real Estate Board Joseph Bozzo, Vice-President Fareed Khan, President	
United Way of Greater Toronto Robin Cardozo, Vice-President & CEO	
Women's Health in Women's Hands Frume Diamond, Health Promotion Coordinator	
World Vision Canada Matthew Scott Linda Tripp, Vice-President	
Yellow Brick House Felomena Williams, Executive Director	
York Technology Association Mark Durst, Chairperson	
Acadia Students' Union Paul Black, President	**Tuesday, October 21, 1997**

Organizations and Individuals	Date
Association acadienne des artistes professionnel(le)s du Nouveau-Brunswick Jeanne Farrah	**Tuesday, October 21, 1997**
Association of Professional Engineers of Nova Scotia Paul MacLellan, President	
Atlantic Popular Education Network Jim Sharpe Margaret Tusz	
Atlantic Provinces Economic Council Elizabeth Beale, President	
Canadian Federation of Students of Nova Scotia Jessica Squires	
Canadian Pensioners Concerned NS Inc. Joan F. Lay, President Myrna Slater, Past National President	
Coalition de Moncton pour la justice économique et sociale Jean-Claude Basque, Spokesperson Adrien Légère	
Comité des douze Claude Snow, Spokesperson	
Common Front Brian Perkins-McIntosh, Spokesperson	
Community Action Programme for Children's Projects in Nova Scotia Joanne Latulippe-Rochan Pauline Raven, President	
Dalhousie Student Union Kevin Lacey, Vice-President	

Organizations and Individuals	Date
Dalhousie University Michael Bradfield, Professor of Economics Howard Dickson, Associate Dean of Medicine	**Tuesday, October 21, 1997**
Enterprise Saint John Steve Carson, General Manager	
Fredericton Area Network Inc. Chris Grady, President	
Fredericton Chamber of Commerce David Neal, President	
Futurs sans-abri de Restigouche Charles Matte Suzie Beaton	
Halifax International Airport Authority Bernice Miller, Chairman Neil Raynor, Executive Director	
Halifax Regional Development Agency Peter Wilde, Chartered Accountant	
Lighthouse Resource Centre John Mahar, President	
Maritime School of Social Work Maureen MacDonald, Professor of Social Work	
Metropolitan Halifax Chamber of Commerce Peter Doig, Chair, Government Affairs Committee Mike Schmid, Chair, Budget Task Force	
Mount St. Vincent University Sheila Brown, President	
National Cancer Institute Gerry Johnston, Professor & Head, Terry Fox Cancer Research Institute	
New Brunswick Federation of Labour John Murphy, Executive Secretary	

Organizations and Individuals	Date
New Brunswick Nurses Union Linda Silas, President	**Tuesday, October 21, 1997**
New Brunswick Student Alliance Robert Prince, President	
North End Community Health Centre Carolann Wright-Parks, Director	
Nova Scotia Advisory Council on the Status of Women Patricia Doyle-Bedwell, President Stella Lord, Researcher	
Nova Scotia Council for the Family Sue Wolstenholme, Member of the Executive	
Nova Scotia Disabled Persons Commission Nita Irving, President	
Nova Scotia Federation of Labour Rick Clarke, President	
Nova Scotia Government Employees Union Joan Jessome, First Vice-President Ian Johnson, Senior Policy Analyst	
Nova Scotia League for Equal Opportunities Lorne Ryan, Executive Director	
Nova Scotia NDP Robert Chisholm, Leader	
Nova Scotia Roadbuilders and Heavy Construction Association Steve Williams, Managing Director	
Pictures Plus Diana Alexander, President	
Queen Elizabeth II Foundation Cheryl Hodder, Director of Gift Planning	

Organizations and Individuals	Date
Results Canada Chris Cann Roger Wehrell	**Tuesday, October 21, 1997**
Saint John Board of Trade Tom Gribbons, President	
Saint John Construction Association Patrick Darrah, Executive Director	
Société des acadiens et acadiennes du Nouveau-Brunswick Micheline Dion, Executive Director	
University of New Brunswick Frank Dunn, Planned Giving Officer	
Victoria Health Centre Elaine Sussey, Executive Director	
Individuals Jimmie Gorman Edith Perry	**Wednesday, October 22, 1997**
Alert PEI Brian Curley, Member	
City of Charlottetown Ian McDonald	
City of St. John's Marie White, Acting Mayor Roger Bishop, Director of Finance	
Civic 4 — ILRC Mary Reid, Executive Director	
Coalition for Equality Bev Brown, Member	

Organizations and Individuals	Date
Community Alliance for Better Solutions Joyce Hancock, President, Advisory Council on the Status of Women — Newfoundland Moyra Buchan, CMHA Janice Lockyer	**Wednesday, October 22, 1997**
Construction Association of Prince Edward Island Francis Reid, General Manager	
Council of Canadians Leo Broderick, Educator and Member	
Diagnostic Chemicals Regis Duffy, President	
Emmanuel House Matthew Della Valle Jocelyn Greene, Director	
Federation of Prince Edward Island Municipalities Irene Dawson, President Lisa Doyle-MacBain, Executive Director	
Greater Charlottetown Area Chamber of Commerce Kathy Rose-Ellsworth, President Harvey MacKinnon, General Manager	
Greater Summerside Chamber of Commerce Marilyn Waugh-Arseneault, President John MacDonald, General Manager	
Leader, NDP Newfoundland Jack Harris, Member, House of Assembly	
M.F. Sherman Co. Ltd. Terry Moorehead, Treasurer	
Newfoundland & Labrador Federal Joint Adjustment Committee Jeannie Duffett, Co-Chair	

Organizations and Individuals	Date
Newfoundland & Labrador Federation of Labour Elaine Price, President	**Wednesday, October 22, 1997**
Newfoundland & Labrador Road Builders Association Leonard Knox, President David Burnell, Past President Rick Spracklin, Board Director & Member Rudy Wasmeir, Manager	
Newfoundland and Labrador Building and Construction Trades Council William A. Parsons, Executive Director Vince Burton	
Newfoundland and Labrador Oil Development Allied Trades Council Derm Cain, President	
Newfoundland Federation of Students Dale Kirby, Provincial Chairman	
PEI Council of the Disabled Anne Lee Nielsen, Executive Director	
Prince Edward Island Federation of Agriculture Crystal McDonald, Executive Director	
Prince Edward Island Health Coalition Mary Boyd, Chairperson	
Prince Edward Island Road Builders and Heavy Construction Association Blair McLauchlan, President Roger Perry, Secretary	
Public Service Alliance of Canada — St. John's Region Mike Stokes, Regional Representative	
St. John's Board of Trade Roger Flood, Past President	

Organizations and Individuals	Date
Simscape Development Corporation Robert O'Rourke, President	**Wednesday, October 22, 1997**
Tenants' Action Association Keith Davis, President	
Voice for Justice in Housing Emma Rooney, Co-Chair	
Individual David Laidler, Department of Economics, University of Western Ontario	**Thursday, October 23, 1997**
Bank of Montreal Rick Eggleton, Deputy Chief Economist	
Business Council on National Issues Thomas D'Aquino, President and CEO Sam T. Boutziowis, Senior Associate	
Canadian Imperial Bank of Commerce Josh Mendelsohn, Senior Vice-President & Chief Economist	
Direct Sellers Association Vic Prendergast, President W. Jack Millar, c/o Millar Kreklewetz, Tax Lawyers Linda J. Herron, President, Electrolux	
Insurance Bureau of Canada George Anderson, President Paul Kovacs, Chief Economist	
Loewen, Ondaatje, McCutcheon Ltd. Maureen Farrow	
Natural Sciences and Engineering Research Council Tom Brzustowski, President	
Royal Bank of Canada Craig Wright, Deputy Chief Economist	

Organizations and Individuals	Date
Individual Arthur Drache, Q.C., c/o Drache, Burke-Robertson, Buchmayer	**Monday, October 27, 1997**
Canadian Association of Gift Planners David Boyd-Thomas, Board Director	
Canadian Association of National Voluntary Organizations Al Hatton	
Canadian Centre for Philanthropy Patrick Johnson, President and CEO	
Canadian Institute of Child Health Graham Chance Jenni Tipper	
Canadian Policy Research Networks Inc. Suzanne Peters	
Canadian Teachers' Federation Harvey Weiner, Deputy Secretary General	
Child Poverty Action Group Christa Freiler, Program Director	
Child Welfare League of Canada Mel Gil	
Community Foundations of Canada Monica Patten, Executive Director	
Conference for Advanced Life Underwriters William J. Strain, F.C.A., Chair — Taxation	
Learning Disabilities Association of Canada Roy Cooper, Vice-President, Central Region	
The War Amps of Canada H.C. Chadderton, Chief Executive Officer Brian Forbes, Solicitor	

Organizations and Individuals	Date
United Way of Canada David Armour, President	**Monday, October 27, 1997**
Aerospace Industries Association of Canada Peter R. Smith, President	**Tuesday, October 28, 1997**
Association of Universities and Colleges of Canada Robert J. Giroux, President & CEO	
CAE Inc. Bob Waite, Vice-President, Corporate Relations & Marketing	
Canada Foundation for Innovation Keith Brimacombe, President Denis Gagnon, 1st Vice-President	
Canadian Academy of Engineering Pierre Franche, Executive Director	
Canadian Advanced Technology Association Shirley-Ann George	
Canadian Association of University Teachers Shirley Mills, Treasurer	
Canadian Cancer Society Kenneth Kyle, Director of Public Issues	
Canadian Consortium for Research Paul Hough, Chair	
Canadian Dental Association Ray Wenn, Member, Government Relations Committee	
Canadian Graduate Council Rubina Ramji, Chair	
Canadian Medical Association Victor Dirnfeld, President Carole Guzmàn, Associate Secretary General	

Organizations and Individuals	Date
Canadian Research Management Association Anne Alper, Executive Director Frank Maine, Director, Science & Technology Policy	**Tuesday, October 28, 1997**
Coalition for Biomedical & Health Research Clément Gauthier, Executive Director Barry McLennan	
Council for Health Research in Canada Mark J. Poznansky, Chairman	
Heart and Stroke Foundation of Canada Audrey Vandewater, President	
Humanities and Social Sciences Federation of Canada Chad Gaffield, President	
Information Technology Association of Canada André Gauthier, Treasurer and Senior Executive Vice-President, LGS Inc.	
ISTAR Internet Rainer Paduch, Chief Technology Officer, Vice-Chair & Founder	
Medical Research Council Henry Friesen, President Alex McKenzie, Children's Hospital of Eastern Ontario	
National Graduate Council Derrick Deans, Coordinator	
Natural Sciences & Engineering Research Council of Canada Tom Brzustowski, President	
Newbridge Network Corporation Ken Wigglesworth, Chief Financial Officer	

Organizations and Individuals	Date
Social Sciences and Humanities Research Council of Canada Marc Renaud, President	**Tuesday, October 28, 1997**
Individual Tony Parker, Economist	**Wednesday, October 29, 1997**
Canadian Chemical Producers' Association Richard Paton, President & CEO	
Canadian Jewellers Association Jonathan Birks, Chairman, Government Relations Committee Pierre Akkelian, Past President	
Canadian Taxpayers Federation Walter Robinson	
Confectionery Manufacturers Association of Canada Carol Hochu, President Brian Lauzon, Chairman	
Conference of Defence Associations Gilbert Saint-Louis, Chairman Sean Henry, Senior Defence Analyst	
Consumers' Association of Canada Gail Lacombe, President	
Hotel Association of Canada Tony Pollard, President	
Retail Task Force Michael Sherman, Vice-President, Corporate and Public Affairs, Dylex Ltd. Tim Carter, Vice-President, Public Affairs, Oshawa Group Ltd.	
Individual Dale Orr, Economist	**Thursday, October 30, 1997**

Organizations and Individuals	Date
Alliance of Canadian Cinema, Television and Radio Artists (ACTRA) Alexander S. Crawley	**Thursday, October 30, 1997**
Association des producteurs de films et de télévision du Québec Louise Baillargeon, President & CEO	
Association of Canadian Publishers Jack Stoddart, President & CEO	
Automotive Industries Association of Canada Dean Wilson, President	
Canadian Association of Mutual Insurance Companies Normand Lafrenière, President	
Canadian Automobile Association David Leonhardt, Manager, Public and Government Relations	
Canadian Cattlemen's Association Jim Caldwell, Director	
Canadian Conference of the Arts Susan Annis, Associate Director	
Canadian Council for International Co-operation Betty Plewes, President & CEO	
Canadian Cultural Human Resources Council Jean-Philippe Tadet, Executive Director	
Canadian Federation of Agriculture Sally Rutherford, Executive Director	
Canadian Federation of Independent Business Catherine Swift, President & CEO Garth Whyte, Vice President, National Affairs and Research	

Organizations and Individuals	Date
Canadian Film and Television Production Association Elizabeth McDonald, President Tom Berry, Member, Board of Directors	**Thursday, October 30, 1997**
Canadian Housing and Renewal Association Sharon Chisholm, Executive Director	
Canadian Labour Congress Mary Rowles, Assistant to the President Andrew Jackson, Senior Economist	
Canadian Museums Association Janet Brooke, Vice President John McAvity, Executive Director	
Canadian Pork Council Martin Rice, Executive Secretary	
Canadian Professional Sales Association Terry Ruffell, President Jack Shand, President, Canadian Gift & Tableware Association	
Crop Protection Institute Lorne Hepworth, President Charles D. Milne, Vice-President, Government Affairs	
International Centre for Human Rights and Democratic Development Hon. Warren Allmand, President	
Mining Association of Canada C. George Miller, President Dan Paszkowski, Vice President, Economic Affairs	
N.B. Ministry of Natural Resources and Energy Alan R. Graham, Minister	
National Anti-Poverty Organization Richard Shillington, Research Associate	

Organizations and Individuals	Date
Ontario Federation of Agriculture Tony Morris, President	**Thursday, October 30, 1997**
Professional Association of Canadian Theatres Pat Bradley	
Tourism Industry Association of Canada Debra Ward, President	
Writers' Union of Canada Merilyn Simonds, Second Vice-President	
Association des producteurs de films et de télévision du Québec André Provencher, Vice-President, Programming, *TéléMétropole inc.*	**Monday, November 3, 1997**
Association of Canadian Community Colleges Gerald Brown, President & CEO	
Association of Universities and Colleges of Canada Robert J. Giroux, President & CEO	
Canada Family Action Coalition Peter Stock, Policy and National Affairs Director	
Canadian Alliance of Students' Associations R. Hoops Harrison, National Director	
Canadian Association of Broadcasters Loren Mawhinney, Vice-President, Canadian Production, Global Television	
Canadian Association of Student Financial Aid Administrators Judy Stymest, Quebec Regional Representative	
Canadian Association of University Teachers Roger Leger, Government Relations Officer	

Organizations and Individuals	Date
Canadian Broadcasting Corporation Phyllis Platt, Executive Director, Arts & Entertainment Programming, CBC English Television Charles Ohayon, General Manager, Programs, CBC French Television	**Monday, November 3, 1997**
Canadian Cable Television Association Jay Thompson	
Canadian Council on Social Development David Ross, Executive Director	
Canadian Federation of Students Jennifer Story, National Deputy Chairperson	
Canadian Federation of University Women Betty Bayless, President Nora Kudrenecky, Legislation Director	
Canadian Film and Television Production Association Elizabeth MacDonald, President	
Canadian Graduate Council Rubina Ramji, Chair	
Canadian Living Foundation Martha O'Connor, Executive Director	
Canadian National Institute for the Blind (CNIB) Vangelis Nikias, National Director, Government Relations and International Liaison	
Canadian Policy Research Networks Inc. Judith Maxwell, President	
Canadian Teachers' Federation Harvey Weiner, Deputy Secretary General John Staple, Director, Economic Services	
Child Care Advocacy Association of Canada Wendy Atkin, Advocacy Coordinator	

Organizations and Individuals	Date
Council of Canadians with Disabilities Laurie Beachell, National Coordinator	**Monday, November 3, 1997**
Dialogue Canada Ubald Laurencelle John E. Trent	
Learning Disabilities Association of Canada James Horan, President	
Ontario Council of Agencies Serving Immigrants (OCASI) Carl Nicholson	
Pembina Institute Robert Hornung, Director, Climate Change Program	
REAL Women of Canada Cecilia Forsyth, National President Diane Watts, Researcher	
Sierra Club of Canada Louise Comeau, Director, Energy & Atmosphere	
Specialty and Premium Television Association Jane Logan, President	
Alliance of Manufacturers and Exporters' Association of Canada Stephen Van Houten, President Jason Myers, Vice-President & Chief Economist	**Tuesday, November 4, 1997**
Association des collaboratrices et partenaires en affaire Irène Marais, President	
Building & Construction Trades Department Phil Benson, Legislative Affairs	

Organizations and Individuals	Date
Canadian Association of Oilwell Drilling Contractors Duane Mather, President Colin MacDonald, Counsel Howard Mackie, Don M. Herring, Managing Director	**Tuesday, November 4, 1997**
Canadian Automobile Dealers Association Richard C. Gauthier, President Huw Williams, Director, Public Affairs	
Canadian Automotive Repair and Service Council (CARS) Daniel Bell, President Keith Lancastle, Spokesperson	
Canadian Congress for Learning Opportunities for Women Pat Webb, President	
Canadian Construction Association Michael Atkinson, President John Devries, Vice-President	
Canadian Police Association Dale Kinnear, Labour Analyst	
Canadian Pulp and Paper Association Ian Young, Chairman, Finance Section Steve Stinson, Director, Finance & Business Issues	
Canadian Real Estate Association Pierre J. Beauchamp, Chief Executive Officer Gregory Klump, Senior Economist Gordon Taylor, Director	
Canadian Research Institute for the Advancement of Women Lise Martin, Research Officer	

Organizations and Individuals	Date
Canadian Restaurant and Food Services Association Michael Ferrabee, Vice-President, Government Affairs Joyce Reynolds, Senior Director, Government Affairs	**Tuesday, November 4, 1997**
Certified General Accountants' Association of Canada Don Goodison, Partner, c/o Kemp Harvey Goodison, Certified General Accountants Mark Boudreau, Vice-President, Public & Government Relations	
Coalition to Renew Canada's Infrastructure John D. Redfern, Chairman	
Fédération des femmes du Québec Françoise David, President Ruth Rose, Economist	
Federation of Canadian Municipalities Jae Eadie, President Gilles Vaillancourt, Chairman, Finance Committee	
Fisheries Council of Canada Patrick McGuinness, Vice-President	
Geomatics Industry Association of Canada Hugh O'Donnell, Vice-Chairman	
Heritage Canada Foundation Douglas Franklin, Director, Government Relations Brian Anthony, Executive Director	
National Action Committee on the Status of Women Joan Grant-Cummings, President	
National Association of Women and the Law Lisa Philipps, Member, National Steering Committee	

Organizations and Individuals	Date
National Council of Women of Canada Ruth Brown, Past President Helen Saravanamuttoo, Vice-President	**Tuesday, November 4, 1997**
Ontario Professional Fire Fighters Association Rick Miller, Chair, Pension Committee Sean McManus, Canadian Director, International Association of Fire Fighters	
Pharmaceutical Manufacturers Association of Canada Hon. Judy A. Erola, P.C., President	
Railway Association of Canada Bob Ballantyne, President	
Regroupement des centres de femmes du Québec Michèle Asselin, Coordinator	
Individual Dr. Fernand Labrie, Research Director, Pavillion of the Laval University Hospital & Director, Department of Anatomy-Physiology, Faculty of Medicine, Laval University	**Wednesday, November 5, 1997**
Canadian Aids Society Russell Armstrong, Executive Director	
Canadian Health Coalition Mike McBane, National Coordinator	
Canadian Labour Congress Nancy Riche, Executive Vice-President	
Canadian Life and Health Insurance Association Mark Daniels, President	
Geomatics Industry Association of Canada Hugh O'Donnell, Vice-Chairman	

Organizations and Individuals	Date
Health Action Lobby (HEAL) Mary Ellen Jeans, Co-Chair & Executive Director, Canadian Nurses Association Sharon Sholzberg-Gray, Co-Chair & Co-Executive Director, Canadian Association for Community Care	**Wednesday, November 5, 1997**
Investment Funds Institute of Canada Tom Hockin, President & CEO	
Life Underwriters Association of Canada David Thibaudeau, President	
Mount Sinai Hospital Foundation of Toronto Nicholas Offord, President	
Multi-Employer Benefit Plan Council of Canada Raymond Koskie, Chair, Government Industry Relations Committee John O'Grady, Economist, Public Perspectives Inc.	
National Federation of Nurses Unions Kathleen Connors, President	
Results Canada Jean-François Tardif, National Coordinator	
Royal College of Physicians and Surgeons of Canada Hugh M. Scott, Executive Director	
Individual Pierre Fortin, Department of Economics, *Université du Québec à Montréal (UQAM)*	**Thursday, November 6, 1997**
Bank of Canada for Canadians Coalition Jordan B. Grant, Chairperson	
C.D. Howe Institute William Robson, Policy Analyst	

Organizations and Individuals	Date
Canadian Centre for Policy Alternatives Monica Townson, Economist and Pension Expert Bruce Campbell, Executive Director	**Thursday, November 6, 1997**
Canadian Home Builders' Association Bob McLaughlin, President John Kenward, Chief Operating Officer Dick Miller, Secretary	
Canadian Labour Congress Nancy Riche, Executive Vice-President	
Financial Executives Institute Canada H.M. (Mack) Kast, Chairman	
Friends of Canadian Broadcasting Ian Morrison, Spokesperson	
Ontario Teachers' Pension Plan Board Leo de Bever, Vice-President, Research and Economics	

APPENDIX B
List of Submissions

Acadia Students' Union

Adult Career Centres

Advanced Educational Council of B.C.

Aerospace Industries Association of Canada

Alberta Association for Young Children

Alberta Association of Registered Nurses

Alberta Council on Aging

Alberta Federation of Labour

Alberta Quality of Life Commission

Alberta Real Estate Board

Alberta Roadbuilders and Heavy Construction Association

Alberta Teachers' Association

Alert PEI

Alliance of Canadian Cinema, Television and Radio Artists (ACTRA)

Alliance of Manufacturers and Exporters' Association of Quebec

Alliance Québec

Allied Signal Aerospace

Arthurs, Robert

Association canadienne-française de l'Alberta

Association des collaboratrices et partenaires en affaire

Association des producteurs de films et de télévision du Québec

Association of Canadian Community Colleges

Association of Canadian Pension Management

Association of Canadian Publishers

Association of Professional Engineers of Nova Scotia

Association of Universities and Colleges of Canada

Atlantic Popular Education Network

Atlantic Provinces Economic Council

Automotive Industries Association of Canada

B.C. & Yukon Territory Building and Construction Trades Council

B.C. Cancer Foundation

B.C. Federation of Labour

B.C. Road Builders & Heavy Traffic Construction Association

B.C. Transit

Babb, C.E.

Bank of Canada for Canadians Coalition

Bank of Montreal

Baxter, Thomas

Board of Trade of Metropolitan Toronto

Bomberry, Stephen C.

Boothe, Prof. Paul

Bradfield, Michael

Brady, Noël Patrick

Brandon Chamber of Commerce

British Columbia Teachers' Federation

Building and Construction Trades Department

Burgman, Dr. Petra

Burlington Chamber of Commerce

Burns, Charles H.

Business Council of B.C.

Business Council on National Issues

C.D. Howe Institute

CAE Inc.

Caledon Institute for Social Policy

Campaign 2000

Canada Family Action Coalition

Canada Foundation for Innovation

Canada Television and Cable Production Fund

Canada West Equipment Dealers Association

Canadian Academy of Engineering

Canadian Advanced Technology Association (CATA)

Canadian AIDS Society

Canadian Alfalfa Industry

Canadian Alliance of Student Associations

Canadian Association for Community Living

Canadian Association of Broadcasters

Canadian Association of Food Banks

Canadian Association of Gift Planners

Canadian Association of Mutual Insurance Companies

Canadian Association of National Voluntary Organizations

Canadian Association of Retired Persons

Canadian Association of Student Financial Aid Administrators

Canadian Association of the Non-Employed

Canadian Association of University Teachers

Canadian Association of University Women

Canadian Association Oilwell Drilling Contractors

Canadian Auto Workers

Canadian Automobile Association

Canadian Automobile Dealers Association

Canadian Automotive Repairs and Service Council (CARS)

Canadian Broadcasting Corporation (CBC)

Canadian Business and Professions for Accountability Association

Canadian Cable Television Association

Canadian Cancer Society

Canadian Catholic Organization for Development and Peace

Canadian Cattlemen's Association

Canadian Centre for Philanthropy

Canadian Centre for Policy Alternatives

Canadian Centre for Policy Alternatives (B.C.)

Canadian Chamber of Commerce

Canadian Chemical Producers' Association

Canadian Coalition of GST-Exempt Service Providers

Canadian Conference of the Arts

Canadian Congress for Learning Opportunities for Women (CCLOW)

Canadian Consortium for Research

Canadian Construction Association

Canadian Council for International Co-operation

Canadian Council for Refugees of Toronto

Canadian Council of Christian Charities

Canadian Council on Social Development

Canadian Council on Social Development

Canadian Dehydrators Association

Canadian Dental Association

Canadian Federation of Agriculture

Canadian Federation of Independent Business

Canadian Federation of Students

Canadian Federation of Students (Nova Scotia)

Canadian Federation of Students (Vancouver)

Canadian Film and Television Production Association

Canadian Graduate Council

Canadian Health Coalition

Canadian Home Builders' Association

Canadian Housing and Renewal Association

Canadian Imperial Bank of Commerce (CIBC)

Canadian Institute of Child Health

Canadian Jewellers Association

Canadian Labour Congress

Canadian Life and Health Insurance Association

Canadian Living Foundation

Canadian Medical Association

Canadian Mental Health Association

Canadian Museums Association

Canadian National Institute for the Blind (CNIB)

Canadian Pensioners Concerned Nova Scotia Inc.

Canadian Police Association

Canadian Policy Research Networks Inc.

Canadian Pork Council

Canadian Professional Sales Association

Canadian Pulp and Paper Association

Canadian Real Estate Association

Canadian Research Institute for the Advancement of Women

Canadian Research Management Association

Canadian Restaurant and Food Services Association

Canadian Tax Foundation

Canadian Taxpayers Federation

Canadian Teachers' Federation

Canadian Urban Transit Association

Canadian Urban Transit Association

Certified General Accountants' Association of Canada (CGA)

Charette, André

Child Care Advocacy Association of Canada

Child Poverty Action Group

Child Welfare League of Canada

Chinese Business Association

Chisholm, Robert, M.L.A., N.S.

Choices Coalition for Social Justice

CIBC Commercial Banking Centre

Citizens for Public Justice

City of Charlottetown

City of Red Deer Social Planning

City of Regina

City of St. John's

Civic 4 — ILRC

Clinical Research Institute of Montreal

Coalition for Biomedical & Health Research

Coalition for Equality

Coalition for Seniors for Social Equity

Coalition of Public Education

Coalition to Renew Canada's Infrastructure

College Institute Educators' Association of B.C.

Common Front for Social Justice

Common Sense

Community Action on Poverty

Community Action Program for Children's Projects in N.S.

Community Alliance for Better Solutions

Community Foundations of Canada

Confectionery Manufacturers Association of Canada

Confédération des syndicats nationaux (CSN)

Confederation of University Faculty Associations of B.C.

Conference for Advanced Life Underwriters

Conference of Defence Associations

Construction Association of Prince Edward Island

Consumers' Association of Canada

Cottrell, Donald

Council for Health Research in Canada

Council of Canada

Council of Canadians with Disabilities

Croft, Jean-Claude

Crop Protection Institute

Crossroads Resource Group

Cultural Human Resources Council

Dalhousie Students Union

Dalhousie University

Department of Finance

Department of Human Resources Development

Dialogue Canada

Direct Sellers Association

Drache, Arthur, B.C., Q.C.

Dussault, Bernard

Eckler Partners Ltd.

Economics & Portfolio/Equity Strategy

Ecumenical Coalition for Economic Justice

Edmonton Arts Council

Edmonton Chamber of Commerce

Edmonton City Centre Church Corporation

Edmonton Social Planning Council

Edmonton's Food Bank

Equipment Dealers Association

Ernst & Young

Etobicoke Brighter Futures Coalition

Etobicoke Social Development Council

Family and Community Support Services Association

Fédération de l'âge d'or du Québec

Fédération des femmes du Québec

Fédération étudiante universitaire du Québec (FÉUQ)

Federation of Canadian Municipalities

Federation of Prince Edward Island Municipalities

Fergusson, The Honourable Muriel

Financial Executives Institute Canada

Fisheries Council of Canada

Fondation Jacques Francoeur

Fortin, Pierre

Frank Buck Agencies

Fraser Institute

Fredericton Area Network Inc.

Fredericton Chamber of Commerce

Friends of Canadian Broadcasting

Frontier College

Gabriele, Costanzo

Galloway, Sydney

Garrish, Timothy

Geomatics Industry Association of Canada

Greater Charlottetown Area Chamber of Commerce

Greater Summerside Chamber of Commerce

Greater Vancouver Gateway Council

Greene, Jocelyn

Grenier, Leonard

Griffiths, D.J.

Growing up Healthy Downtown

Gulyes, B.A.

Gyton, Greg

Halifax International Airport Authority

Halifax Regional Development Agency

Halton Social Planning Council

Health Action Lobby (HEAL)

Health Sciences Association of Alberta

Healthy City, Calgary

Heart and Stroke Foundation of Canada

Heritage Canada

Heritage Canada Foundation

Hindson, Ralph

Hospital Employees Union

Hotel Association of Canada

Hughes, Stan

Humanities and Social Sciences Federation of Canada

Hutchinson, Mr. and Mrs. J.T.

Information Technology Association of Canada (ITAC)

Institute for the Study of Economic Policy

Insurance Bureau of Canada

International Brotherhood of Boiler Makers

International Centre for Human Rights and Democratic Development

International Children's Service

Investment Fund Group

Investment Funds Institute of Canada

ISTAR Internet

Isthmus Council of B.C.

Jacks Institute

Johnston, Rosallie

Jones, Mr. Jeff & Mrs. Mary Anne

Kidd, Dorothy

Kids First

Knoll, L.J.

Krane, Wanda

Krause, A. Hans

Kusturin, Debbie

Kwantlen University College

Labour College of Canada

Labrie, Dr. Fernand

Laidler, David

Langille, Heather

Lashchuk, Mary

Learning Disabilities Association of Canada

Lebel, Jeannine

Legislative Assembly of Alberta

Let's Talk Science

Library Association of Alberta

Life Underwriters Association of Canada

Loewen, Ondaatje, McCutcheon Ltd.

Lonsdale, Carol

Love, David

Low Income Families Together

Lucieer, Michael and Joan

MacDougall, Ian

Mahon, Kenneth

Mainwaring, Robert

Manitoba Action Committee on the Status of Women

Manitoba Cancer Treatment & Research Council

Manitoba Chamber of Commerce

Manitoba Federation of Labour

Manitoba Federation of Union Retirees

Manitoba Research Council

Maritime School of Social Work

Markham Board of Trade

Martel, Michel

Martin, Emilie L.

McNiven, C.

Medical Research Council of Canada

Menzies, Dr. James

Metropolitan Halifax Chamber of Commerce

Microenterprise Development & Microcredit

Midland-Walwyn Capital Inc.

Mining Association of Canada

Miskolezi, Elmer

Mohawk College

Montmarquette, Claude

Montreal Neurological Institute

Moore, Rebecca

Morency, Yves

Mount Sinai Hospital Foundation of Toronto

Mouvement des caisses Desjardins

Multi-Employer Benefit Plan Council of Canada

National Action Committee on the Status of Women

National Anti-Poverty Organization

National Association of Tobacco and Confectionery Distributors

National Association of Women and the Law

National Ballet of Canada

National Cancer Institute of Canada

National Council of Women of Canada

National Federation of Nurses' Unions

National Foundation for Family Research and Education

National Graduate Council

National Pensioners and Senior Citizens Federation

Native Employment Services Association of Alberta

Natural Sciences & Engineering Research Council of Canada

Ness, Ruth

New Brunswick Federation of Labour

New Brunswick Ministry of Natural Resources and Energy

New Brunswick Nurses Union

New Brunswick Student Alliance

Newbridge Network Corporation

Newfoundland & Labrador Chamber of Commerce

Newfoundland & Labrador Federation of Labour

Newfoundland & Labrador Oil Development Allied Trades Council

Newfoundland & Labrador Road Builders Association

Newfoundland and Labrador Building and Construction Trades Council

Newfoundland and Labrador Federal Joint Adjustment Committee

Newfoundland Federation of Students

Newhook, Marmaduke

Nova Scotia Advisory Council on the Status of Women

Nova Scotia Council for the Family

Nova Scotia Disabled Persons Commission

Nova Scotia Disabled Persons Commission

Nova Scotia Federation of Labour

Nova Scotia Government Employees Union

Nova Scotia League for Equal Opportunities

Nova Scotia Road Builders Association

O'Blenis, J. David

O'Shaughnessy, Michael

Older Women's Network

Ontario Coalition for Better Child Care Networks

Ontario Coalition of Senior Citizens' Organizations

Ontario Council of Agencies Serving Immigrants (OCASI)

Ontario Federation of Agriculture

Ontario Hospital Association

Ontario Professional Fire Fighters Association

Ontario Social Development Council

Ontario Teachers' Pension Plan Board

Organisation D'aide aux Sans-Emploi (ODAS)

Orr, Dale

Ottenbreit, Ralph, Q.C.

P.E.I. Health Coalition

Panesar, Janet R.

Parker, Tony

Paul, Daniel

Paul, Jeff

Pearce, David

PEI Council of the Disabled

Pembina Institute

People in Equal Participation Inc.

Percy, Dr. Michael B.

Perry, David P.

Pezell, Michael

Pharmaceutical Manufacturers Association of Canada

Political Response Group

Power, Douglas

Prairie Pools Inc.

Premier's Council (Alberta)

Premier's Council on the Status of Persons with Disabilities

Prince Edward Island Federation of Agriculture

Prince Edward Island Health Coalition

Princess Margaret Hospital Foundation

Private Career Training Association

Professional Association of Canadian Theatres

Public Service Alliance of Canada

Public Service Alliance of Canada — St. John's Region

Quattrocchi, Augustus

Quebec Chamber of Commerce

Quebec Jewellers' Corporation

Queen Elizabeth II Health Sciences Centre Foundation

Quigley, John

Railway Association of Canada

REAL Women of Canada

Regina & District Food Bank

Regroupement des centres de femmes du Québec

Rental Housing Council of B.C.

Results Canada

Retail Council of Canada

Retail Task Force

Rieck, Steven

RIFSSSO

Roadbuilders and Heavy Construction Association of Saskatchewan

Robertson, Stromberg

Rogers Ian

Ross, Wilfrid

Rowe, Hugh

Royal Bank of Canada

Royal College of Physicians and Surgeons of Canada

RRSP Alliance

Rudolph, Randy

Saint John Board of Trade

Saint John Construction Association

Saskatchewan Action Committee on the Status of Women

Saskatchewan Child Care Association

Saskatchewan Council for International Cooperation

Saskatchewan Motion Picture Association

Saskatchewan Wheat Pools

Saueracker, R.H. (Rudi)

Seniors' Action and Liaison Team

Shand, May

Shaver, Donald

Sheffield, Scott

Sierra Club of Canada

Smith, Green & Associates

Snyder, Roy

Social Justice Commission (Edmonton)

Social Planning & Research Council of B.C.

Social Planning Council of Winnipeg

Social Sciences and Humanities Research Council of Canada

Société franco-manitobaine Winnipeg

Société Saint-Thomas d'Aquin (SSTA)

Specialty and Premium Television Association

St. John's Board of Trade

Stafford Technology Institute

Sun Life Insurance Company of Canada

Supina, Greg

Sweezey, Dr. Neil

Tenants' Action Association

The War Amps of Canada

Thomas Sills Foundation

Toronto Real Estate Board

Tourism Industry Association of Canada

United Nurses of Alberta

United Way of Canada

United Way of Greater Toronto

University of Alberta

University of New Brunswick

University of Regina

University of Regina Student Union

Vancouver Board of Trade

Vancouver Foundation

Victoria Health Centre

Voice for Justice in Housing

Voluntary Sector Roundtable

Western Canadian Wheat Growers Association

Western Canadian Wilderness Committee

White, Barbara

Wilbur, James

Wilson, Laurel

Women for Equality

Women's Health in Women's Hands

World Vision Canada

Writers' Union of Canada

York Technology Association

APPENDIX C
Townhall Meetings

Members of Parliament	Riding
Augustine, Jean, M.P.	Etobicoke—Lakeshore, Ontario
Bakopanos, Eleni, M.P.	Ahuntsic, Quebec
Barnes, Sue, M.P.	London West, Ontario
Bevilacqua, Maurizio, M.P.	Vaughan—King—Aurora, Ontario
Bonin, Ray, M.P.	Nickel Belt, Ontario
Bonwick, Paul, M.P.	Simcoe—Grey, Ontario
Bradshaw, Claudette, M.P.	Moncton, New Brunswick
Bryden, John, M.P.	Wentworth—Burlington, Ontario
Bulte, Sarmite D., M.P.	Parkdale—High Park, Ontario
Carroll, Aileen, M.P.	Barrie—Simcoe—Bradford, Ontario
Chan, Honourable Raymond, P.C., M.P.	Richmond, British Columbia
Crête, Paul, M.P.	Kamouraska—Rivière-du-Loup—Témiscouata—Les Basques, Quebec
Cullen, Roy, M.P.	Etobicoke North, Ontario
Dromisky, Stan, M.P.	Thunder Bay—Atikokan, Ontario
Fontana, Joe, M.P.	London North Centre, Ontario
Goodale, Ralph, M.P.	Wascana, Saskatchewan
Jackson, Ovid L., M.P.	Bruce—Grey, Ontario
Karetak-Lindell, Nancy, M.P.	Nunavut, Northwest Territories
Kilgour, Honourable David, P.C., M.P.	Edmonton Southeast, Alberta
Leung, Sophia, M.P.	Vancouver Kingsway, British Columbia
Mahoney, Steven, M.P.	Mississauga West, Ontario
Maloney, John D., M.P.	Erie—Lincoln, Ontario
McKay, John, M.P.	Scarborough East, Ontario
Mitchell, Honourable Andy, P.C., M.P.	Parry Sound—Muskoka, Ontario

Myers, Lynn, M.P.	Waterloo—Wellington, Ontario
O'Brien, Patrick W., M.P.	London—Fanshawe, Ontario
Pagtakhan, Dr. Rey D., M.P.	Winnipeg North—St. Paul, Manitoba
Peric, Janko, M.P.	Cambridge, Ontario
Perron, Gilles A., M.P.	Saint-Eustache—Sainte-Thérèse, Quebec
Pettigrew, Honourable Pierre, P.C. M.P.	Papineau—Saint-Denis, Quebec
Phinney, Beth, M.P.	Hamilton Mountain, Ontario
Proud, George A., M.P.	Hillsborough, Prince Edward Island
Redman, Karen, M.P.	Kitchener Centre, Ontario
Scott, Honourable Andy, P.C., M.P.	Fredericton, New Brunswick
Shepherd, Alex, M.P.	Durham, Ontario
Stewart, Honourable Jane, P.C., M.P.	Brant, Ontario
Szabo, Paul, M.P.	Mississauga South, Ontario
Torsney, Paddy, M.P.	Burlington, Ontario
Valeri, Tony, M.P.	Stoney Creek, Ontario
Whelan, Susan, M.P.	Essex, Ontario

MINORITY OPINION OF THE OFFICIAL OPPOSITION MEMBERS OF THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

Over the past few months, the Standing Committee on Finance has heard pre-budget submissions across the country in regards to what the government's priorities should be after the budget is balanced: reducing the level of public debt, reducing taxes, increasing spending, or a combination of all three. The message we heard was clear. The government's promise of spending 50 per cent of any surplus on new programs, while dedicating the remaining 50 per cent to providing tax relief and reducing the debt is not supported by the majority of Canadians. Although some groups appeared to present a very strong case for limited spending increases in areas of national priority like health, education, and investments in Canada's future competitiveness, not a single group supported the government's "spend now ask questions later" policy of simply spending before establishing need. The Reform Party members of the Standing Committee have a number of concerns, which are stated below. A more detailed response will be included in our own upcoming pre-budget submission.

Narrow Range of Opinion

Although the government claims that the Standing Committee's mandate is to listen to Canadians and take their submissions into account in the budget making process, the Committee heard no evidence from ordinary Canadians. Although numerous interest groups, business leaders, and professional associations gave submissions, many of which were very helpful in explaining some of the more complex issues facing the Committee, they did not reflect the wants, aspirations, and desires of the most important group affected by government budgets — the ordinary taxpayer. The Reform Party, through its own process of consultations and pre-budget hearings, did hear submissions from ordinary Canadians and the message was clear — no new spending without first getting a handle on the debt, reducing the record high tax burden on Canadians, and only after determining whether or not there was a need for spending. We shall make it clear. Many of our constituents did express a desire for some restoration of health care and education funding, others expressed a concern for youth unemployment. However, the **overwhelming majority of participants in our consultations expressed a clear and undeniable priority for debt reduction and tax relief first**, before the government spends anything on programs other than those in the high priority areas mentioned above. In future, the government must make more of an effort to hear the views, opinions, and priorities of ordinary Canadians, instead of relying primarily upon professional lobbyists and interest groups for their input.

Debt Reduction Was a Clear Priority

The majority of witnesses who did appear before the Committee made it clear that the government was on the wrong track with its 50-50 promise. The majority expressed their concern that the government was not emphasizing debt reduction enough, risking exposure to interest rate volatility and more deficits. The Reform Party joins these participants in expressing a concern over the level of debt and the weakness of Liberal resolve to reduce that debt, and urges the government to abandon its watered-down debt reduction (non) strategy in favour of a more credible and less risky policy of debt reduction. Even the government's own members are hearing feedback suggesting that the 50-50 promise is off the mark. Liberal Member of Parliament George Proud recently received results of a questionnaire distributed in his riding, which found that 42 per cent of the people responding favoured using the surplus for debt reduction, 37 per cent favoured tax relief (of which reductions in the personal income tax was the most popular) and just 21 per cent favoured increased spending, a majority of whom favoured increases in health care spending. These results should serve as a warning to the government that they are getting dangerously out of touch with their own constituents.

In short, the government must set clear and credible debt to GDP ratio targets that it can be judged by, over the short, medium, and longer terms, with interim targets more flexible, but acting as barometers by which progress on short, medium, and long term targets may be measured. Joshua Mendelsohn of CIBC suggested that Canada aim for a level of debt that could help re-establish Canada's foreign currency credit rating at Triple A. Others simply suggested that simply doing more than the 50-50 promise implies would be preferable to the status quo. **The Reform Party thereby recommends that the government set clear and credible targets for the debt to GDP ratio in its annual Budgets, and provide Canadians with a progress report on meeting those targets. There is too much risk of backsliding and simply waiting for the debt to shrink in proportion to GDP unless the government is bound in the court of public opinion by clear targets**.

The Government Already Appears Ready to Ignore Messages it Doesn't Want to Hear

Recent media reports quote Liberal MP and Finance Committee Chair Maurizio Bevilacqua as stating that he couldn't recall a single call for lower taxes among witnesses appearing before the Committee. These types of statements unfortunately provide an ominous warning that the government is ready to ignore those opinions it does not want to hear. In fact, numerous witnesses expressed a concern that the tax burden in Canada was too high, and that steps would have to be taken to reduce this burden. Campaign 2000 expressed their concern over high taxes and felt that the government should "[alleviate]

the burdens of working families and young adults who have borne the brunt of spending cuts." The Markham Board of Trade urged the government to "build restoration of full bracket indexation into future budgetary plans." This view was expressed by numerous witnesses, including the Canadian Chamber of Commerce, and the Association of Canadian Pension Management. The Kids First Parent Association of Canada called on the government to extend the Child Care Expense Deduction to all parents and recommended that the "tax burden on families should be reduced significantly." The Canadian Taxpayer's Federation called for substantial tax relief for Canada's long-suffering taxpayer. Numerous witnesses, including the Canadian Association of Retired Persons and the Burlington Chamber of Commerce called on the government to substantially reduce Employment Insurance premiums. The statements of these witnesses, and the many others who demanded the government pay greater attention to tax relief have essentially been ignored by the government, and its Chair of the Committee, who claims that he could not recall a single call for tax relief.

Canadians suffer from the highest personal income tax burden in the entire G-7, with a burden 56 per cent higher than the average of our G-7 partners. The Canadian property tax burden is the heaviest in the entire OECD. When we remove social security taxes, which the Minister of Finance claims are not taxes at all, but contributions, Canada's total tax burden is the highest of the G-7, 28 per cent above the average in our partner nations and a full 48 per cent higher than our main trading partner, the U.S. The government can no longer claim it has not increased taxes when we know that the personal income tax burden as a proportion of national income have increased year after year, which would not have been the case had the government not increased taxes. Returning the personal income tax burden to its 1994 level would necessitate a $6.5 billion tax cut this year. The government can point to its 3 year tax expenditure increase of $2 billion as evidence of its intention to cut taxes, but when we compare it to cumulative revenues over the period of about $410 billion, it seems a pittance indeed. **In recognition of the fact that Canadian taxpayers have paid a brutal price in the war against the deficit, the Reform Party thereby recommends that:**

- **The government officially abandon its 50-50 promise and instead, put more emphasis on tax relief than spending increases in recognition of the fact that the Canadian taxpayer has suffered far more from deficit reduction than government spending programs have.**

- **The government stop increasing taxes through its use of the inflation tax, which has sucked a cumulative $13.4 billion more out of taxpayer's pockets since 1993, and which the OECD has identified as having been responsible for pushing a full 18 per cent of taxfilers either onto the tax system or into higher tax brackets as a result of inflation alone.**

- **The government commit to reducing personal income taxes substantially before the end of the current mandate.**

- **The government make substantial reductions in Employment Insurance premiums in recognition that close to 40 per cent of the premiums being collected are being used for reducing the deficit, which has nothing to do with the legislation governing collection of the premiums.**

Conclusions and Further Recommendations

The Reform Party is of the opinion that there is very little support for the government's policy of in effect, "spending first and asking questions later." Canadian taxpayers have suffered through too many incessant tax increases to be put at risk again by a visionless government for whom the means of spending and the end of spending are the same. Therefore, we urge the government to officially abandon its 50-50 guideline and freeze spending, increasing it only where a need can be demonstrated, such as in health care, education, and technology. Instead, greater emphasis must be placed on reducing a tax burden that has surpassed that of our G-7 partners and reached record highs. There are of course a number of ways the government can reduce this burden:

- Reduce statutory rates

- Eliminate the temporary surtaxes

- Increase basic exemptions

- Reduce Employment Insurance premiums

- Reduce the GST

Further, and as stated above, the government must set clear and credible targets for reducing the debt to GDP ratio over the short, medium, and long term. These targets will reinforce credibility of fiscal policy, reduce Canada's exposure to interest rate and exchange rate volatility, and spread the burden of debt reduction more fairly across generations, rather than passing the entire burden on to future generations. Further, the government should seriously explore a number of other areas where government can strengthen its commitment to health and education:

- The government should seriously consider the recommendation of Ontario's Advisory Panel on Future Directions for Post-secondary Education and allow students to deduct interest paid on student loans from income in calculating their income tax liabilities. Since investors can currently deduct interest on loans that are used to produce income, student loans should be treated similarly in the interests of fairness and in order to encourage more young Canadians to seek the training necessary for the jobs of tomorrow. Young Canadians have been hit hard by fiscal restraint over the past 6 years, as tuition costs increase, and should be provided relief and have investments made in their future treated the same as any other investment.

- The government should explore ways in which it can encourage a strong medical and health research sector in Canada, providing benefits for all Canadians and getting a solid head-start on the health care pressures that will eventually build up on all levels of government. Compared to the U.S., UK, France and Germany, where health research budgets have grown since 1990, Canada's performance (net decline of almost 10 per cent) stands out as particularly woeful and does not reflect the priorities of Canadians. The government must realize that one of the key tools it has at its disposal in containing the costs of health care is in finding ways to avoid or reduce the cost of disease. It has been estimated that research in heart disease has led to a decline in the incidence of heart disease and a net savings of billions of dollars per year, not to mention the thousands of lives saved and the improvements in the quality of life for heart patients affected by research. Therefore, the government should explore options for increasing the budget of the Medical Research Council.

- The government should follow the lead of the United States and reduce capital gains taxes. Capital gains taxes are a tax on the futures of all young Canadians since they reduce the amount of potential investment in the economy and thereby reduce the stock of capital that future generations stand to inherit. A recognition of the importance of capital investment in Canada's past was at least partially responsible for the baby boom generation's status as the wealthiest generation in Canadian history. For the baby boom to deny improvements in the living standards of their children by discouraging investment and reducing the "bequest of capital" that takes place between generations, is unjust. Further, the reduction in capital gains taxes in the U.S. means that the competitive playing field has been tilted even more in favour of our neighbours to the south. We recommend the government explore options for an immediate reduction in the effective capital gains tax and provide the over 800,000 Canadians (59 per cent of whom earn less than $50,000 a year) with an incentive to continue investing in the Canadian economy.

Only by abandoning the policies of the past, can the government hope to prepare Canadians for the future. Canadians have a record of which they can be proud, having built one of the strongest, most economically dynamic, and culturally diverse nations in the world in the past century, mostly without direct government intervention. In fact, it has only been since the government started taking a more activist role in the economic and social institutions of the nation that productivity, incomes, and economic growth have declined, and unemployment, taxes, and debt have increased. The government would do well to pay attention to the submission of Michael Walker, Executive Director of the Fraser Institute, who argued for a smaller government on the grounds of economic efficiency. The Reform Party has argued for a smaller government for similar reasons, including a lower tax burden, increased incentives, higher productivity, and a stronger economy that retains its dynamism and power for the next generation.

DISSENTING OPINION BY THE BLOC QUÉBÉCOIS

REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE PRE-BUDGET CONSULTATIONS

<u>The Bloc Québécois accuses the Minister of Finance</u>

When the Minister of Finance brought down his most recent budget in February 1997, the Bloc Québécois predicted that by the end of the 1996-97 fiscal year, the federal government's deficit would be in the neighbourhood of $10 billion. The Minister of Finance laughed at this assertion, claiming loudly that the Bloc's calculations were unrealistic. But this October's Economic and Fiscal Update shows that the Bloc was right.

The Bloc Québécois is strongly critical of the Minister of Finance because his $8.9 billion deficit has been achieved at the expense of the provinces and the unemployed. If the Minister has obtained a positive financial outcome, he has done so because the provinces contributed 54 cents for every dollar in spending slashed by the federal government between 1994 and 1998. Equally, the unemployed, workers and employers will this year alone have contributed $7 billion to the fight against the deficit, in the form of money taken from the Employment Insurance Fund surplus. All the Minister of Finance had to do was reap the fruits of the drastic measures he imposed on Quebeckers and Canadians, plus the revenues generated by economic growth and increased by the non-indexation of the tax tables.

The Bloc Québécois also accuses the Minister of having deliberately hidden information from the taxpayers about the true state of Canada's public finances, so that he could continue his draconian cuts while avoiding a public debate on the use of the surpluses. How could the Minister and the bureaucrats at Finance Canada have made a forecasting mistake on the order of 53% between last February's budget and October's Economic Statement? What could it have been but deliberate?

<u>Our demands for the next Budget</u>

Backed by many stakeholders in a wide variety of spheres of activity in Quebec, the Bloc Québécois demands that the Minister of Finance adopt seven specific measures in his next Budget. The measures echo consensus opinions that emerged from our pre-budget consultations with Quebec stakeholders:

1. The federal government must stop interfering in areas of provincial jurisdiction such as health, education, social security, etc. It must not create new programs in areas of jurisdiction where it would only be multiplying

bureaucratic structures and above all increasing costs to the taxpayer. The Minister of Finance must instead use some of the margin of manoeuvre that will be opening out in the next few years to partly reimburse what he has appropriated from the provinces for post-secondary education, health and social assistance.

2. The federal government must reform the current employment insurance system to put an end to the inequities the system creates and provide better protection to the workers of Quebec and Canada, especially seasonal workers. The Bloc Québécois demands that the Minister of Finance proceed with a substantial reduction in employment insurance premiums, conditional on the private sector's performance in creating jobs. This reduction in premiums could represent 40 cents per hundred dollars of insurable payroll. The Minister of Finance must also set up an employment insurance fund that is separate from the Consolidated Revenue Fund (as proposed by the Auditor General of Canada), so that the money of workers and employers is no longer used to reduce the deficit artificially.

3. The federal government must stimulate job creation and wage war on poverty. The Bloc Québécois, and many stakeholders in Quebec, demand an in-depth reform of the personal and corporate income tax system, which could prove to be an invaluable tool in achieving job creation and fighting poverty while at the same time making possible a targeted reduction in income and other taxes paid by individuals and small and medium-sized businesses.

4. The federal government must restore indexed tax tables. The absence of this indexing constitutes a disguised increase in personal income tax.

5. The Minister of Finance must bring in anti-deficit legislation, resembling that passed by Quebec's National Assembly.

6. With regard to the GST, the Minister of Finance must accept the Bloc Québécois' arbitration proposal in order to settle the question; if necessary, he must pay the Quebec government the $2 billion it is claiming for harmonization with the Quebec sales tax.

7. The Minister of Finance must restore the moneys taken from foreign aid. Since 1993, when the Liberals took power, the amounts destined for foreign aid have been slashed, in defiance of Canada's humanitarian tradition.

One country, two peoples, two diametrically opposed visions

The recent consultations have enabled us to confirm that, more than ever, there are two completely opposite visions of what the federal government's role should be. While Quebec is calling for greater powers for the provinces and greater autonomy, the nine other provinces are calling for Ottawa to get more involved in their areas of jurisdiction! This is true of health, education and anti-poverty measures.

In Quebec, federal intrusion in areas that properly belong to the Quebec government has been widely criticized, and the federal government has been told to give back the money it appropriated for this purpose; in the rest of Canada, people are calling for pan-Canadian programs and national standards applicable from sea to sea. These two visions are irreconcilable, and augur not only jurisdictional conflicts in the future but also futile and costly friction between Quebec and the other provinces.

The only solution: sovereignty for Quebec

In light of these two irreconcilable visions of the roles of Ottawa and Quebec City, there are only two possible conclusions: either the Quebec government must agree to let itself be crushed by the federal steam roller, or it must repatriate all powers from the federal government by achieving sovereignty following a referendum. There is no middle ground between these two options: to remain in the federal system commits Quebec to a path encumbered with expensive and pointless squabbles that will not put bread on the table.

It is high time to ask which parliament is in the better position to offer services to the people of Quebec: the one in Ottawa, where Quebec holds 25% of the seats, or the one in Quebec City that is 100% elected by Quebeckers? Which government is better placed to speak for the people of Quebec on the international stage, to pass laws that affect Quebeckers, to administer their taxes and to promote their economic and social development? We are convinced that the answer is Quebec's National Assembly, acting with the full powers of a sovereign state.

New Directions:

A Dissenting Opinion
Nelson Riis, MP, NDP

Over the past four years, the Liberal government, with the ardent support of the Reform Party, has been single minded about its approach to deficit reduction — massive program cuts, the largest layoff in Canadian history, the sell-off of some of the nation's most valuable assets, and the elimination of departments, agencies, and institutions that gave substance to the social and cultural fabric of the country. Any program that providing support to those in need has been undermined or eliminated.

The government's persistent line throughout has been "there is no alternative".

The tragic irony is that there was, and is, an alternative which would have allowed the government to reach its original target for deficit reduction with none of the painful spending cuts which were the supposed centrepiece of its strategy.

The challenge before the government today is not just to decide how to allocate the fiscal dividend, but to ensure that the anticipated dividend materializes. Canadians have told government again and again that their priorities are their economic security, their health, their children, and their education. Restoring balance in the Canadian economy means using our improved fiscal capacity to re-invest in this country and to make a positive impact on the lives and prospects of Canadians who have already sacrificed enough in the fight against the deficit.

A Question of Values

In his opening remarks to this Committee, Finance Minister Paul Martin said **"Some see the discussion ahead as a financial debate only. It isn't. It's a debate about values."**

Like many Canadians appearing before this committee, New Democrats welcome that debate. This **Dissenting Report** ensures that the concerns, voices and values of the broad majority of Canadians find expression in the pages and recommendations of this Report.

For the past year and a half, the Liberal government has maintained that the economic fundamentals are all in place. The Finance Minister boasts that "the country is on the verge of a new era.". Canadians want to share that confidence. But to many, his clearest, most compelling message, was "this government has cut up its credit card."

The message — even though we are so much better off, we can no longer afford what we once took for granted. Investments we once made collectively to improve the quality of our national life and to lay the foundation for a healthy, well educated population, seem to be regarded as just wasteful self-indulgence, and not the building blocks of a better future for all of us. Today, you're on your own.

Dozens of witnesses appeared before the Committee to tell the Liberals that they have their fundamentals wrong. **The federal books may be in balance, but the economy is out of kilter.**

To many it seems Canada's real wealth is declining as we grow richer. The stock market is soaring, the GDP is climbing, but somehow there isn't enough money to pull our kids out of poverty, or give young people the education they need to get decent jobs, or pay working men and women a living wage, or maintain one of the best health care systems in the world. And forget about jobs. We are told repeatedly that government can't create jobs and shouldn't try.

Internationally, we may be the first to balance the budget, but over the past eight years, while citizens in other industrialized nations saw their GDP per capita grow at an average rate of 9.1%, Canada alone saw its standard of living decline. We now have the second highest incidence of child poverty, the second highest inequality index, and the second highest incidence of low pay for full time workers in the industrialized world.

Canada has eliminated its fiscal deficit by creating a massive social deficit. The essence of the Liberal solution is to make its problem someone else's problem by down-loading debt and off-loading responsibility to the provinces, ordinary people, and most callously, to the poor. Rather than joining the government's chorus of self congratulation, countless witnesses condemned the Liberals' stewardship and the values that guided government choices.

- "Chartered banks rack up record profits while food banks run out of food. There's something wrong with this picture."
- "Through drastic transfer cuts, the government has removed the CARE from health care."
- "Eight years ago, 87% of Canadians who lost their jobs and had paid into unemployment insurance received benefits; now only 37% do. That's lower than the state of Alabama."
- "Chronic unemployment, rising tuition, spreading pollution, inadequate health care ... are costly consequences of the widespread neglect of human core values."

The Road Not Taken

The most damaging testimony came from economists who demonstrated that the cuts were all unnecessary.

A study by the Canadian Centre for Policy Alternatives pointed to the fact that 60% of the improvement in government finances between 1995 and 1997 came from a growing economy stimulated by low interest rates. Dr. Jim Stanford's analysis for the CCPA shows that **if the government had merely frozen spending at 1995 levels and waited for economic growth and lower interest rates, Mr. Martin could have beaten his own timetable and still have reduced Canada's deficit to the lowest level in the G-7.**

The study also demonstrates that pursuing a sustained 4% growth strategy, simply by maintaining interest rates at the early 1997 level, would add an additional $70 billion to federal balance sheets over the next five years to spend on new programs, tax cuts or debt repayment.

On the other hand, if real growth is stalled by the central Bank's obsessively low inflation policy, the fiscal dividend may disappear altogether.

A key question for Canadians is "Are we willing to spend $70 billion over the next five years to keep inflation at near zero? Or do we have other priorities, like fighting unemployment, rebuilding health care, ensuring students access to education?"

Many witnesses, including economist Pierre Fortin, believe it's time to address other priorities. He urged the government to raise the inflation target range by 1% to allow the economic recovery to run its full course — "a small risk for an extremely large political payoff.". To do otherwise " would amount to declaring a write-off of any growth of real GDP per capita over the entire 1989-1997 period, and declaring that Canada's unemployment rate will not decline below 8.5% this decade."

Looking for Work

"The Canadian government has refused to even state an unemployment target. Instead, they have adopted punitive cuts to employment insurance in a misguided effort to force the vulnerable ... to seek jobs that do not exist" economist Michael Bradfield told the committee.

Unemployment has been running at over 9% for 85 consecutive months. Canada is not even close to returning to the 7.5% level of unemployment in 1989, the previous cyclical low. Close to 400,000 young people crowd the ranks of the unemployed. And in October 1997, six years into a recovery, there were fewer jobs for young people than in 1993, and close to half a million fewer jobs for young people than in 1989.

The only real job growth this decade is in self employment. Between August 1989 and August 1997, the economy generated 931,000 new jobs. Of these "jobs" 814,000 or, 87% of the total, represented an increase in self employment rather than the hiring of a paid worker by an employer. In 45% of these jobs, workers are earning less than $20,000 per year, and through the 90's the self employed made less and less than employees.

Economists argue that by focusing exclusively on inflation, and failing to set targets for jobs, the government is simply writing off an additional 500,000 jobs. Over five years, an additional 100,000 jobs per year could push our unemployment rate down to 5%.

But instead of a commitment to generate jobs and reduce unemployment, government policy is designed to ensure that jobless rates don't sink too far. The biggest threat to the future is the likelihood that the government will refuse to allow growth to continue, and instead choke off any real recovery in its infancy by jacking up interest rates again. Governor Thiessen has repeatedly stated his intention to "take his foot off the accelerator," and he has the full endorsement of the Finance Minister, who has backed every hike in interest rates as "pre-emptive strike" against inflation.

Recent US experience where the unemployment rate has been at 5% or below for several months without triggering any inflationary spiral shows that the theory that high unemployment is needed to control inflation is no longer credible, if indeed it ever was. The point is, it's hard to get your answers right when you're focused on the wrong problem.

And as Jordan Grant told the committee, "The notion of keeping people unemployed as the foot soldiers in a never-ending war against inflation is immoral."

Canadians know that when the Finance Minister means business, he sets targets and timetables for achieving them. This is what he did with the deficit, it is what he does for inflation, it is what he proposes to do on debt. Canadians know that targets mean commitment, and timetables mean results.

The NDP believes that the top economic priority for the 1998 budget is to set targets to reduce unemployment by at least 1% per year, and to develop specific strategies to achieve these goals.

The Social Imperative Vs the Fiscal Imperative - Striking a Balance

"Canadians have been witnessing a tug of war between the 'social imperative' and the 'fiscal imperative' — between investing in people and human needs, and eliminating the fiscal deficit by cutting social programs," said the Child Poverty Action Group. "The 1995 federal budget put an end to any doubt about which side would win ... This time around, ... social investment in children, youth and families must come first."

In fact, a look at some social and economic indicators reveals that Canada in many respects is marching backwards into the Millennium. Since 1989,

- Average family incomes have fallen by roughly 5%.
- 538,000 more children are living in poverty.
- The number of food banks in Canada has tripled and the proportion of the population relying on them has doubled.
- The number of Canadians filing for personal bankruptcy has tripled.

Groups appearing before the Committee pointed to other evidence of an economy running in reverse:

> "Over the past four years, federal cuts to child care have de-invested millions of dollars from a sector that is a cornerstone of Canadian social policy — in spite of the consensus that investment in the early years yields the greatest return".
>
> **Wendy Aitkin, Canadian Child Care Advocacy Association**

> "When young workers finally achieve employment they earn much less than earlier generations of youth ... young workers in 1992 earned 30% less in real terms than young people in 1981 ... not only are today's youth ... worse off than previous generations at the same stage in life ... but the gap between young people and older workers is growing"
>
> ***Professor Sid Ingerman, Montreal***

> $300 million over three years is being injected into new health care funding. Over the same three years, there will be an $18.9 billion accumulated reduction in funds. The $300 million is 1.5% of the reduction in cash to the provinces and territories".
>
> ***Canadian Medical Association, Ottawa***

By almost any measure, from caring for children, to nurturing the sick, to training the next generation, Canada's social structures are crumbling, or being hacked away.

Another Chance to Get it Right

Today, there is a better fiscal reality — and a very different social reality. A number of witnesses pointed out that "we have a chance to do things right this time."

The real test of a balanced economy is not whether the government can balance its books at the expense of its citizens, but whether it can provide the economic environment in which Canadians and families can balance their own.

As in 1994, the loudest advocates for cutting jobs, cutting health care, cutting education, and cutting resources for children are back. This time the banks and major business lobbies are arguing that there should be little or no social investment, that virtually all of the fiscal dividend should go to reducing the long term debt, and that our next major priorities should be restoring our Triple A credit rating on foreign currency debt, and then cutting taxes — on corporations and the rich — to make us more competitive.

On social investment, many acknowledge that "there are some equity issues". "But," as Maureen Farrow, of Loewen, Ondaatje, McCutcheon, Ltd. put it, "don't lets bend over backwards."

New Democrats believe that equity issues have been shelved for far too long. On the threshold of a post deficit world, Canadians should be taking the opportunity to make strategic investments to rebuild both our economy and our social structures. A stronger economy is key to long term health of federal balance sheets. Our approach would be to build a high employment, growing economy which can generate a significant fiscal dividend, and provide an ongoing revenue stream to address the social deficit.

The NDP's priorities are to:

- Make full employment the primary goal of government with targets to cut rates by a minimum of 1% per year. The Bank of Canada should be instructed that employment growth is its central priority as well.
- Set targets for elimination of child poverty, and a timetable for implementation.
- Make strategic investments to rebuild our failing public infrastructure — our health care system, education and training systems and networks, environmental and cultural industries, social housing, child care and elder care, highway and other transportation links.
- Maintain a balanced budget over the next five years, aiming for continuing GDP growth of 4% per year, and some easing of the inflation target band.

- Maintain overall tax levels in the short term, but rebalance the system to achieve greater fairness and to advance broader social policy goals, such as the elimination of child poverty, a fairer sharing of the tax burden, and assistance for students and the disabled.

- Direct tax relief measures to the neediest, through refundable tax credits such as the GST, and exempting essentials from federal sales tax, rather than to enriching subsidies for those earning over $75,0000 a year. As circumstances permit, reduce the overall GST rate by two points to promote job creation and give hard-pressed consumers a break.

If the economic recovery is allowed to run its course, the debt/GDP ratio will fall from its current level of 70% to approximately 50% over the next five years, a substantial reduction in the debt burden, and well below the Maastricht target of 60%.

Overall priority should be given to investments which raise our long term social and economic well-being, investments in education, child care, research and the sustainability of the natural environment.

PROGRESSIVE CONSERVATIVE RESPONSE TO THE PRE-BUDGET CONSULTATION PAPER

FOREWORD

In presenting this response to the Finance Committee's report on pre-Budget consultations, **Keeping the Balance: Security and Opportunity for Canadians**, the Progressive Conservative Party has a number of observations on the process used by the Committee in arriving at the final report. The Committee heard from over 400 witnesses, but made little effort to arrive at a consensus respecting the testimony and recommendations. In addition, the draft text of the Committee's report was withheld from Members, who were allowed about 24 hours to review its contents. Taken together, these drawbacks seriously detract from the overall utility and credibility of the pre-Budget consultation process.

INTRODUCTION

Six years into Canada's economic recovery, the benefits of that recovery continue to be poorly distributed in Canada. While jobs have been created, unemployment remains at or above the level of 9 per cent. Young people across the country are facing serious challenges in making the transition from school to work. And in every region of the country, there are areas and groups for whom pervasive and chronic unemployment is the norm for yet another generation of Canadians.

Our national economy is facing other challenges:

- Since the Liberals were elected in the Fall of 1993, disposable income has actually **declined** by 1.6 per cent. This decline is largely the result of high personal taxation levels, particularly excessive and rising payroll taxes. The OECD recently warned that Canada's personal taxes are so high they could prompt a brain drain of people who contribute significantly to our growth and innovation.

- Our corporate taxation system is also cause for concern; the OECD believes it currently acts as a disincentive to investment and job creation, especially for large manufacturers.

- Inter-provincial trade barriers continue to cost our economy billions of dollars in lost jobs, lost labour mobility and lost productivity. It is still easier to trade our goods and services outside this country than within.

- Canada is increasingly unable to train the workers it needs for the expanding knowledge economy. Earlier this year, the federal government was forced to open the Canadian border to skilled software workers to meet an urgent shortage of skills. As we enter a new millennium, we face the challenges and opportunities of an exciting new global knowledge-based economy. At this juncture, strategic investment in education for young Canadians is a direct investment in Canada's comparative advantage, competitiveness and wealth. Since 1989 student debt has grown by 280 per cent, and tuition has risen by 110 per cent. At a time when Canadians need education and training more then ever, the barriers to accessibility continue to mount. Accessibility to post-secondary education for young Canadians is one of the most critical competitiveness issues in the new economy.

THE GOVERNMENT'S RESPONSE

The government's usual response to these issues is to point to the national job creation numbers and maintain that all is well. That misses the point on several counts. First, the lost productivity of unemployed Canadians costs this country billions in lost tax revenues and income support payments, not to mention the frustration of those who want to work and cannot. Second, government does not create jobs, the economy does. The appropriate role of government in managing the economy is to set the conditions for investment opportunity, growth and job creation. Third, redistributing incomes is a poor substitute for ensuring that opportunities to participate in the economy are shared throughout all regions of the country and all sectors of society.

THE LIBERALS' ECONOMIC AGENDA

When governments have no compass, no direction and no idea of where to take the country, they fall back on what they know best. In the case of the Liberals, this comes down to a simple and simplistic equation — that governing equals spending. The recent Throne Speech contains proposals for 27 new spending initiatives, the clearest indication that they have not learned the lessons of the last generation of public over-spending. The message from the Throne Speech is clear: "Investment, growth and jobs must wait, because we have to start spending again."

What Canadians will not find in the Throne Speech is any practical action to address the structural challenges facing the Canadian economy. Indeed, the Liberals seem intent on making a bad situation worse:

- By keeping Employment Insurance premiums excessively high, the Liberals have allowed a huge and unnecessary surplus of close to $13 billion to build up in the EI Fund. This surplus is nothing more than a tax on jobs that has been kept in place by the government to improve its deficit numbers. The Finance Minister admitted as much when he announced a small reduction in EI premium rates on November 21.

- The government's proposals to restore credibility to the Canada Pension Plan will result in a tax increase of $11 billion on taxpayers and employers alike. It is clear that the long-term contribution base of CPP must be re-established so that it can meet its current and future commitments. **We believe, however, that the federal government must commit to end the unnecessary Employment Insurance surplus and to reduce EI premiums to offset the proposed CPP premium increases.**

- The government's current efforts to reform the Canada Pension Plan are part of a broader set of initiatives to bring fundamental changes to the entire retirement income system. The Liberals' proposed Seniors' Benefit would penalise initiative by reducing the benefits paid to those who have put money away for their retirement. The Liberals have refused to spell out the specific impacts of the Seniors' Benefit on those who save. In addition, the government has reduced the annual contribution limits for RRSPs, instead of supporting increased retirement savings. **We believe the government should publicly disclose the impact of its Seniors' Benefit on the future incomes of retirees, and increase RRSP contribution limits to expand tax-supported retirement savings.**

- 20 per cent of Canada's national income and at least 1.9 million jobs are created by trade among the provinces and territories. During their first term, the Liberals negotiated an Agreement on Internal Trade (AIT) whose purpose was to reduce inter-provincial trade barriers. The AIT is an abject failure. There is no binding and enforceable dispute mechanism. Differing provincial standards for professional and occupational certification continue to block labour mobility. Government procurement is excluded from the Agreement. A secret 1997 Industry Canada study released earlier by the Progressive Conservative Party found that the AIT addresses only 13 per cent of internal trade barriers. **We believe the federal government must exercise leadership in tearing down inter-provincial trade barriers to enable Canadians to grow their national economy.**

THE FISCAL DIVIDEND

Canada is moving rapidly towards a balanced budget but we are not there yet. The current focus on the fiscal dividend is the first step in adjusting to that emerging reality. The government has announced its intention to devote half of its surplus to "addressing the

social and economic needs of Canadians" (new spending) and the other half to a combination of tax and debt reduction. The time line for these commitments is the government's current mandate, in other words, the next four to five years.

The Progressive Conservative Party believes that this approach is limited and flawed on several counts:

1. **Canada Needs Balanced Budget Legislation Now**

The Liberals are planning no measures to ensure that the fiscal dividend will either be achieved or become a permanent part of the federal budgetary scene. **We believe there must be tough balanced budget legislation, to ensure that this country is never again caught in the spiral of deficits and debt. We propose a balanced budget law that would reduce the pay of the Prime Minister and Cabinet if the deficit ban is broken.**

2. **Canada Needs Measurable Debt Reduction Targets Now**

The government has refused to establish clear and measurable targets for debt reduction and debt-to-GDP ratios. This is a weak-kneed and short-sighted response that ignores the many calls the Committee heard for urgent action on the debt. It also flies directly in the face of public opinion. The recent Angus Reid poll found that 84 per cent of Canadians want the federal government to focus on reducing the accumulated debt and high taxes.

It is clear that the Liberals' debt reduction strategy consists solely and simply of letting time pass, and counting on economic growth to reduce the ratio. This approach forgoes the permanent dividend of reduced interest payments that results from every dollar of debt that is paid down.

Action to address Canada's debt is exactly what the OECD recommended in its recent report on Canada:

> "Given the relatively high levels of public debt — at around 73.4 per cent, the net debt-to-GDP ratio remains the third highest amongst OECD countries — priority should be given to using these surpluses to put the ratio on a clear downward trend."

It is notable that even in fiscally profligate Europe, debt-to-GDP ratios of 60 per cent are required to comply with the ***Maastricht Agreement***. Canada's tax-to-GDP ratio is approximately 7 per cent higher than that of its top 5 trading partners. Meanwhile, Canada's government spending to GDP ratio is 10 per cent higher. These high taxes and high spending have created lower competitiveness and a higher rate of unemployment compared to the U.S., Japan and the Netherlands.

We believe that one-third of the surplus should be devoted to debt reduction, and that action to reduce the debt should start now. The government must reduce our debt-to-GDP to 60 per cent by the end of this mandate and to 50 per cent by 2005.

3. Canada Needs Lower Taxes Now

Taxation levels in Canada remain too high. They penalise initiative, they depress investment that creates jobs, they force investment elsewhere, and they encourage high-skilled, entrepreneurial Canadians to seek their future in more hospitable countries. Despite the many calls for tax cuts heard by the Committee, it is clear that the government has no intention to respond to this need in the near future. **We believe that tax cuts cannot wait until later in the government's current mandate. The next federal Budget must send a clear signal that one-third of the fiscal dividend will be used to reduce the tax burden on Canadians.**

THE ROLE OF GOVERNMENT

As a result of the impending federal surplus, the national public policy agenda is about to change — from the management of scarcity and dismantling what we have known, to building what might be. Unfortunately, much of the current focus on the fiscal dividend, especially as expressed by the current Minister of Finance, assumes that the past decade of federal deficit reductions was an aberration — just a brief respite from the inevitability of increased government spending.

This approach accepts the current role of the federal government — its mandate, its objectives, its methods of operation and maintains the status quo. We risk being trapped there if we do not ask some searching questions about what the federal government currently does and how it does it. Furthermore, how can any government set spending priorities without first ensuring that the framework of government meets the needs of today?

We believe that before any decisions are made about the fiscal dividend, the federal government needs to answer some questions that are much more fundamental:

- **What things should the federal government not be doing any longer?**
- **What things should the federal government be doing completely differently?**
- **What new things should the federal government be doing that it is not doing now?**

Asking these questions would be the first step in ensuring the federal government has in place the appropriate framework for priority setting before it undertakes new spending. It is also essential in restoring the credibility of the federal government as the initiator of major national projects. The recent Angus Reid poll found that 56 per cent of Canadians believe the federal government should not launch new national projects because they would likely result in money being spent with little being accomplished.

SUMMARY

Canada has made significant progress towards balancing the federal budget, and will shortly be in a position to begin paying down the national debt. Unfortunately, the current government has refused to secure this progress and to put this country on a clear and measurable debt reduction track. Moreover, in presenting 27 new spending initiatives in the Throne Speech, the government is signalling its clear intent to spend first and address the need for debt reduction and tax relief later.

The Progressive Conservative Party calls on the Minister of Finance to establish a national plan for investment, growth and job creation by implementing the following measures:

- **Commit to further reduce excessive Employment Insurance premiums to offset the proposed Canada Pension Plan premium increases;**
- **Exercise leadership in tearing down inter-provincial trade barriers;**
- **Bring in balanced budget legislation;**
- **Set measurable debt reduction targets and start paying the debt down now;**
- **Commit to using one-third of the surplus to reduce taxation levels; and**
- **Before allocating the fiscal dividend, redefine the role of the federal government to ensure that there is an appropriate framework for priority setting.**

MINUTES OF PROCEEDINGS

FRIDAY, NOVEMBER 28, 1997
(Meeting No. 57)

[*Text*]

The Standing Committee on Finance met *in camera* at 10:24 o'clock a.m., this day room 269, West Block, the Chair, Maurizio Bevilacqua, presiding.

Members of the Committee present: Maurizio Bevilacqua, Dick Harris, Jim Jone Gilles A. Perron, Karen Redman, Paul Szabo.

Acting Members present: Aileen Carroll for Gary Pillitteri, Shaughnessy Cohen fo Mark Assad, Odina Desrochers for Yvan Loubier, John Maloney for David Iftody, Pat Martin for Nelson Riis, Ian Murray for Roger Gallaway, John O'Reilly for Paddy Torsney, Charlie Penson for Gerry Ritz and Carmen Provenzano for Tony Valeri.

Associate Member present: Norman Doyle.

In accordance with Standing Order 83.1, the Committee commenced consideration of its draft Report on the Pre-Budget Consultations. *(See Minutes of Proceedings, Wednesday, October 15, 1997, Meeting No. 3).*

Shaughnessy Cohen moved,—That the draft Report of the Standing Committee on Finance on its Pre-Budget Consultations be adopted as the Committee's Second Report to the House and that the Chair present it to the House.

Paul Szabo moved the following amendment,—That the motion be amended by adding after the word "Consultations" the following:

"with the following amendments:

(a) On page 59 of the draft Report, by replacing "personal exemption and the married/equivalent to married exemption" with "personal non-refundable tax credits amounts, the spousal amount and the equivalent-to-spousal amount", in order to conform with existing income tax laws; and

(b) On page 66 of the draft Report, by deleting all references to specific increases in the Foreign Content Property Rule and replacing it with "the government consider the advisability of increasing the 20% Foreign Content Property Rule".

And debate arising thereon.

By unanimous consent, the amendment was amended by deleting section (b).

Debate continuing.

The question being put on the amendment, as amended, it was carried on the following division:

Yeas: 7 Nays: 4

The question being put on the motion, as amended, it was carried on the following division:

Yeas: 9 Nays: 2

On motion of Paul Szabo, it was agreed,—That the Chair be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the draft Report.

On motion of Karen Redman, it was agreed, —That the title of the Report be "Keeping the Balance — Security and Opportunity for Canadians".

On motion of Jim Jones, it was agreed,—That the motion adopted at the meeting of November 19, 1997 concerning the deadline of submitting dissenting opinions be extended to 11:59 p.m., Saturday, November 29, 1997.

Ian Murray moved,—That any full Committee member be allowed to take a copy of the report and that the Clerk record which member takes a copy and which member has not removed a copy.

And a question be put on the motion, it was carried on the following division:

Yeas: 12 Nays: 1

On motion of Paul Szabo, it was agreed,—That notwithstanding the motion adopted at the meeting of November 19, 1997, the Committee print an additional 7,000 copies of its Report "Keeping the Balance — Security and Opportunity for Canadians".

At 12:40 o'clock p.m., the meeting adjourned to the call of the Chair.

Carol Chafe

Clerk of the Committee

ERRATA

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John McKay should appear with the other Members who participated.

Appendix B

The Committee also received a submission signed by the following groups:

Crocus Investment Fund
First Ontario Fund
Le Fonds de solidarité des travailleurs du Québec
Workers Investment Fund
Working Opportunity Fund

and the organization "Investment Fund Group" should be removed from the list.

Appendix C

Gary Pillitteri, M.P. for Niagara Falls, Ontario, should appear on the list of Members of Parliament who held Townhall Meetings.

Publications Service